September 7 — September 13, 2015 | bloomberg.com

Bloomberg Businessweek

Exclusive!

Trump *Finally* Talks!

"Someday before I kick the bucket, somebody is going to get what a great business I built."

Inside the Trump Organization

p52

Bloomberg Businessweek

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"Where there is the EU, there is a problem" p66

"I learned never to bet against him, that's for sure"

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"I can tell you this: I don't want to spend my time composting the turkeys in my barn. That is something I never want to do again"

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"If you're trying to cover your tracks, you probably know what you're doing is wrong"

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Bloomberg Businessweek

September 7 — September 13, 2015

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COVER: HARRY BENSON

Cover Trail

How the cover gets made

1 "The cover is on Donald Trump. We spoke to him and his employees and got a firsthand look at the way he runs his organization."

"Do you think he'll agree to a shoot?"

"I don't think he's turned down a single magazine shoot, but I think we've been there already."

"Right, onward to the archives!"

2 "This is the Trumpiest one we could find."

"I don't doubt that."

3 "Minimal headline, maximum Trump."

"A bit too quiet, which is very not Trump."

4 "Maximum headline, medium Trump."

"No, that photo needs to be *HUGE*."

5 "Quote by Trump on top of Trump with headline about Trump."

"This is close, but something's still off."

"You're right. We need to channel Trump. Something that is unapologetically classy and attention-grabbing at the same time."

6 "Do you think people will get it?"

"Someone who thinks we're the only media outlet he's spoken to would probably read the story, too. Win-win!"

SIEMENS

The Value Chain's Digital Upgrade

Thanks to advanced robotics and software, U.S. manufacturing is smarter and more productive than ever

Of all the misfortunes that can befall manufacturers—cost overruns, below-target output, a high defect rate—nothing compares to the cost, both in dollars and reputation, of a delayed product launch. Fortunately, the typical factory can turn the page on the era of "time-to-volume" and "time-to-profit" charts—provided there is a willingness to modernize the factory itself.

With its Digital Factory (DF) Division, Siemens is leading this industrial charge, bringing in hardware, software and analytics-based services that upgrade the flexibility of the engineering and production processes. Able to make companies more efficient and effective, the Digital Factory has tremendous potential in the U.S., where aging factory infrastructure looms as a rampant problem.

According to Raj Batra, President Digital Factory, Siemens U.S., manufacturing has once again become strategic to the enterprise. That means American production plants, and their culture of slow, gradual change, represent a new frontier for what the digital factory can do.

"Over time, the total digital representation of the physical value chain is where this is headed," Batra explains. "The product isn't a static object, and the process can take on a digital form with production being simulated on a computer screen. You have complete integration of data from development through production, internally and with your suppliers."

By embracing technologies like Siemens Digital Enterprise Software Suite platform, a plant gains the ability to innovate its products midstream and on the fly. "When the process is digitized, everything can be simulated, modeled and put through variations," Batra explains. "These simulations will determine not just what screw gets procured, but how that screw gets turned. You'll even get a readout on whether you need the screw at all."

Surrounded by advanced robotics and leveraging customization software, a new, tech-savvy generation of factory workers will be doing it all in a post-industrial atmosphere that's quiet, clean and bent on innovation. As U.S. plants continue to invest in modernization, these workers will one day be able to say they helped bring about the rise of the digital factory.

— David Gould

siemens.com/MadeinAmerica

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Subscriptions 800 635-1200
Address 731 Lexington Ave., New York, NY 10022
E-mail bwreader@bloomberg.net
Fax 212 617-9065 **Subscription Service**
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Opening Remarks

Emerging Markets Are Still The Future

By Michael Schuman

Remember when emerging economies were supposed to save us all? After the 2008 financial crisis, the traditional engines of global growth—the U.S., Western Europe, and Japan—stumbled into recession. To the rescue came the once-poor developing world. China, India, Brazil, and other up-and-comers powered the global economy through the historic downturn. The meek were inheriting the earth.

Not completely, as it turns out.

Today, as the U.S. recovery gains steam and even debt-burdened Europe stirs to life, the emerging world has tumbled into trouble. Growth is slowing, currencies are plunging, and investors are fleeing. Fears of a protracted slowdown in China sparked a worldwide stock selloff in August. The turmoil has even resurrected terrifying memories of previous emerging-markets crises, like East Asia's rout in 1997, igniting jitters that the fragile global economy faces yet another financial debacle.

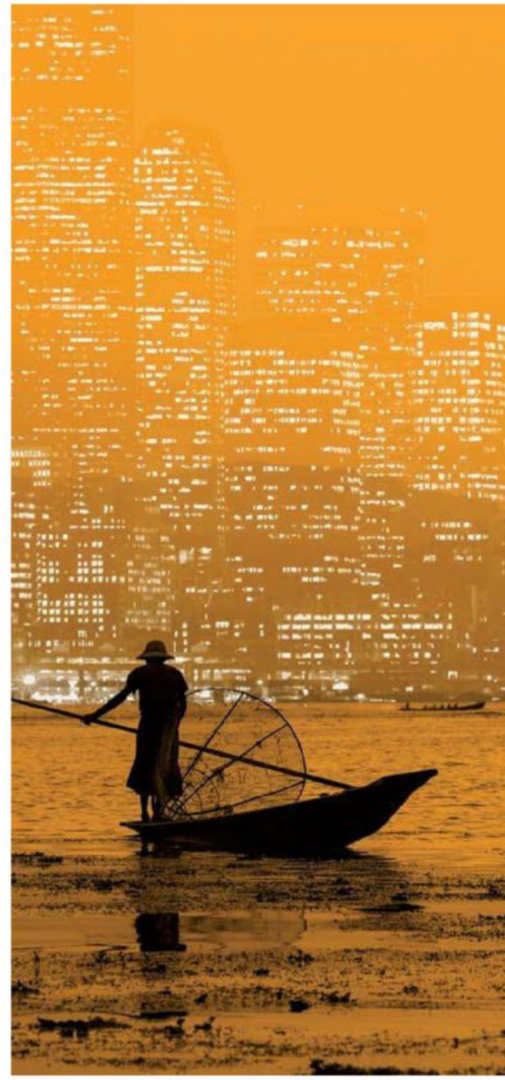
But international investors are making a big mistake. The emerging world will be just fine, thank you. The global business community is allowing short-term uncertainty to cloud the long-term reality of the changing global economy: Emerging markets are still our future.

There are certainly a host of reasons to be down about the developing world at the moment. Hypercharged growth rates have cooled just about everywhere. The International Monetary Fund forecasts that the output of emerging economies will rise only 4.2 percent in 2015, a sharp drop from 7.4 percent five years ago. Brazil and Russia, both proud members of the BRIC group of large developing nations, are in recession. China, the supposed juggernaut of the emerging world, has seen growth drop to its lowest rate in a quarter century.

Terrible policy is to blame. Politicians have been complacent about implementing the reforms necessary to keep growth going. China is example No. 1: Its top leaders have done little to overhaul an outdated, investment-heavy growth model. They're still procrastinating about changes that would unleash the private sector, open markets, and improve productivity—all crucial for prosperity.

In India, perhaps the only major emerging economy with sound prospects right now, Prime Minister Narendra Modi has yet to prove he can walk his bold talk of deregulating the economy to encourage investment. On Aug. 30, Modi announced he wouldn't renew a controversial executive order that loosened restrictions on the purchase of land for industrial projects—a major setback to his efforts.

Then there's Vladimir Putin, who has strangled his oil-dependent economy



by favoring an aggressive foreign policy and isolating Russia from the West, forgoing the investment and technology his country needs to advance.

All this is happening while the international environment remains uncertain. Although growth in the U.S. and Europe is improving, the developed world may not be strong enough to buy more of the exports of developing nations, sparking a recovery among them. Investors have also been spooked by the expectation that the U.S. Federal Reserve will begin raising interest rates for the first time since the 2008 financial crisis. That could suck cash from developing economies (as U.S. assets become more attractive) and raise their borrowing costs—a potential double whammy for their already subdued growth prospects.

As a consequence, a torrent of cash has fled the developing world. Investors yanked more than $900 billion from the world's 19 largest emerging economies over a 13-month period ended in July, according to NN Investment Partners, a Netherlands-based asset-management

Some 3 billion people will enter the middle class by 2050, almost all of them in the developing world

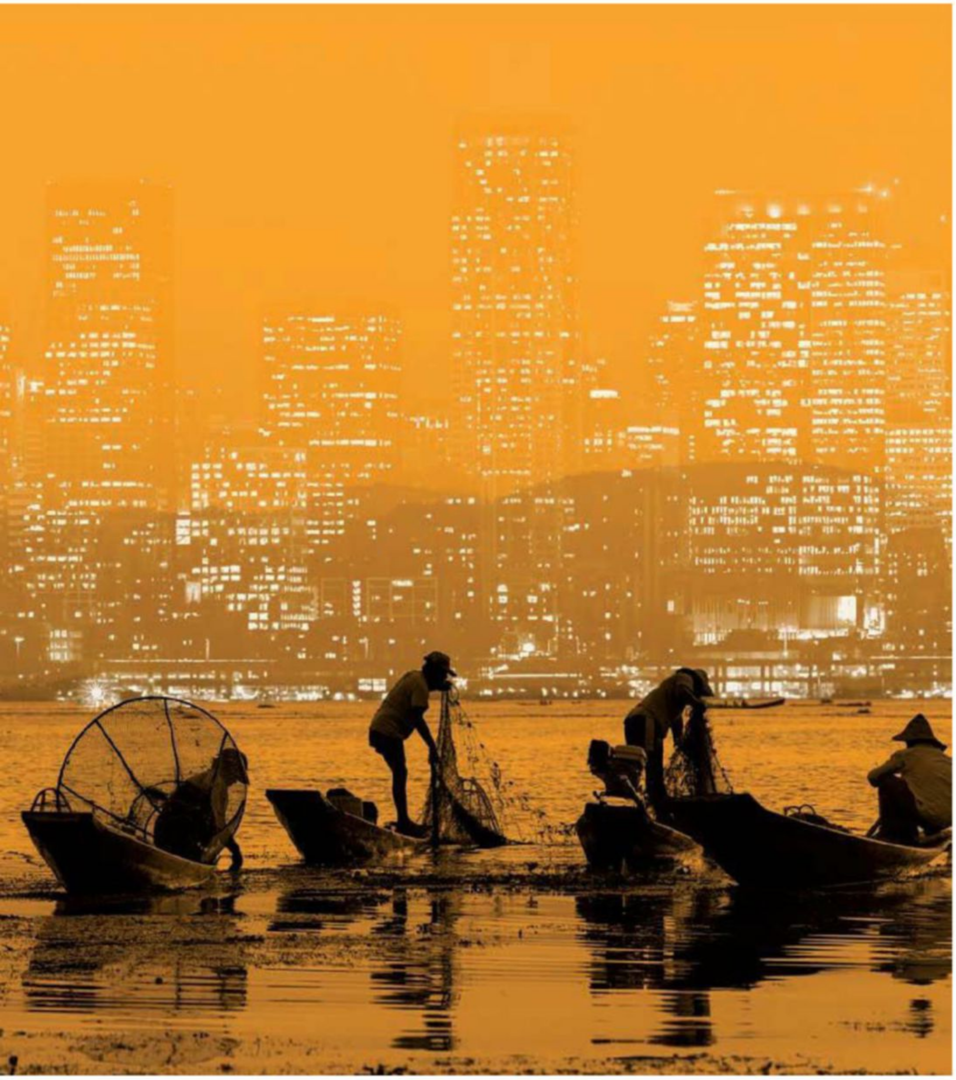


PHOTO ILLUSTRATION BY 731; PHOTOS: MARIO WEIGT/ANZENBERGER/REDUX; GREG VAUGHN/ALAMY

firm. That's almost double the amount pulled at the depths of the 2008 financial crisis. Currencies have taken a beating. The Indonesian rupiah and Malaysian ringgit recently touched lows against the U.S. dollar last seen during the late-1990s Asian financial crisis.

What's significant is that the developing world has endured such drastic capital outflows without tumbling into a full-fledged economic meltdown, proof of its new resilience. Neil Shearing, chief emerging-markets economist at research firm Capital Economics, deemed predictions of an impending crisis "overblown." "It is striking," he wrote in an August report, "that many [emerging-markets] currencies have lost up to half their value over the past couple of years, without triggering widespread financial stress." Shearing noted that the level of foreign-currency debt of most developing economies is lower than it has been in the past, making them less vulnerable to weakening currencies. Other economists point to external surpluses and larger currency reserves in many Asian emerging economies as indicators of their financial strength. Of course, these circumstances don't ensure a crisis won't happen, but they make one much less likely.

Nor should higher U.S. interest rates be as damaging as many investors fear. In a June study, HSBC economist Frederic Neumann and strategist Jessica Wu analyzed previous Fed tightening cycles and discovered they'd left emerging Asia "relatively unscathed," at least in initial stages.

Going further, Michele Mazzoleni, vice president at California-based investment manager Research Affiliates, calls the whole notion that rising U.S. rates are automatically bad for emerging economies a "myth." Historical evidence shows that when interest rates rise on the good news of a strong U.S. economy—the reason behind any Fed tightening now—capital flows into emerging markets. Not only does a healthy U.S. bolster overall global growth, Mazzoleni reasons, it also enhances investors' appetite for risk. "What is good for the United States and other developed economies is also good for the emerging world," he believes.

China, Brazil, and Russia are struggling, but other developing economies are posting strong growth

While high-profile developing countries may be struggling, others continue to excel. Many of today's better performers sat on the sidelines during the developing world's big growth surge of the late 20th century and are just joining the party—a sign that the emerging-markets story is becoming broader. The Philippines, long a laggard in supercharged Asia, is expanding at about 6 percent annually. Myanmar, coming out of self-imposed seclusion, is growing at more than 8 percent. Once-dormant African economies are showing promise. Ethiopia, for decades a symbol of poverty, is expected to expand by 8 percent or more through 2017. The IMF forecasts that a large group of low-income countries will grow 5.1 percent in 2015 and 6.2 percent next year.

None of this is to say that challenges don't remain. Growth cannot be sustained without painful reforms requiring political will—a critical ingredient that's been in short supply. In Brazil, for instance, corruption scandals are paralyzing the government of President Dilma Rousseff as growth tanks; in Indonesia, newly installed President Joko Widodo hasn't yet lived up to his reputation as a reformer; Shearing at Capital Economics says Turkey is a potential trouble spot as well.

Nonetheless, the long-term story hasn't changed. The middle class in the U.S. and Europe will continue to be a pillar of the global economy, but the world's new consumers—and new growth engines—will still be found in developing, not developed, countries. Even if the Chinese leadership fails to shift from investment-dependent to consumption-led growth, consumer spending in China will grow 60 percent over the next decade, according to the Demand Institute, a think tank. In a 2012 study, HSBC researchers prognosticated that almost 3 billion people will enter the ranks of the middle classes by 2050—nearly all in emerging economies. That would create a seismic shift in the world economy: Consumption in emerging countries could account for almost two-thirds of the global total in 2050, a significant increase from only about one-third today.

Where stock markets, currencies, and growth rates will head in coming months may be unclear. That the meek will eventually inherit the earth is not. B

Schuman is a journalist based in Beijing.

To read A. Gary Shilling on cheap oil and Virginia Postrel on Ivy League rankings, go to

Bloombergview.com

How Free Trade Might Save the Rhinoceros

The Trans-Pacific Partnership has conservation written into it

Is it possible that Michael Froman can succeed where both Leonardo DiCaprio and David Beckham have not? Maybe—if the job is saving the rhinoceros, whose population has dwindled to about 29,000 as poaching reaches record highs in countries such as South Africa. One rhinoceros is killed in South Africa every eight hours. The only male northern white rhino in the wild is under 24-hour armed guard in Kenya.

As U.S. trade representative, Froman is the chief negotiator of the Trans-Pacific Partnership, a wide-ranging trade deal among the U.S. and 11 other nations that's expected to be completed this year. The benefits of the agreement will redound to the global economy, but they also extend to the rhino, the elephant, and other species vulnerable to poaching.

Trade in endangered species is already heavily restricted by the U.S. The deal would make it far more difficult for other countries to traffic in items such as elephant tusks and rhino horns. The pact would, for the first time, integrate species conservation with trade access by requiring the 12 countries that sign it to adopt conservation laws—or live up to commitments they've already made yet routinely ignore.

Much of the demand for poached wildlife comes from countries negotiating the TPP. Vietnam, for example, is the main destination for rhino horn. Malaysia is an important shipping hub with a low rate of wildlife-trafficking detection. Under the trade deal, both would have to change their see-no-evil attitude or risk trade sanctions. China is also the source of much demand, and while it won't be a TPP signer, it could conceivably join later.

The TPP would also require international law enforcement agencies, customs and border patrol officials, and wildlife inspectors to coordinate more effectively. If an African country informs Vietnam that one of its citizens has paid a poacher for rhino horns, for instance, the Vietnamese can't ignore the tipoff.

The trade deal may be the only way to prevent some species from extinction. Last year poachers killed 1,215 rhinos in South Africa, home to most rhinos, whose horns are pulverized to make dubious hangover, headache, and cancer cures. That's a 9,000 percent increase since 2007. Deaths could exceed births as early as next year; extinction will soon follow. Already, three of the remaining five rhino species are critically endangered.

Elephants could be next. More than 20,000 African elephants were killed last year, outstripping the growth rate of the population, according to the Convention on International Trade in Endangered Species of Wild Fauna and Flora. A dead elephant sells for about $18,000, mostly for its tusks, which are used to make buttons, chopsticks, piano keys, jewelry, billiard balls, and dozens of other items.

The rhino and elephant can keep their celebrity friends, of course. But their relationship with free trade may turn out to be more meaningful.

Targeting the Earned Income Tax Credit

H&R Block and other companies want more complexity, not less

At roughly 3.7 million words, the modern Internal Revenue Code is getting more complex by the day—and a few companies would like to make it even worse. Consider a scheme Congress may soon take up for some individuals applying for the earned income tax credit. If a report from the Senate Appropriations Committee is heeded, what was once a one-page form for claiming the credit could expand to four or five pages, padded out by pointless and bewildering questions.

The likely result would be that those eligible would either forgo their credits or hire tax services for help. As it happens, H&R Block, the largest such service, helped write a report recommending the changes. Complexity has its advocates.

This plan is doubly wrongheaded. It would further complicate a process that already costs more than $30 billion annually, wastes taxpayers' time, facilitates fraud, and drives Americans—rich and poor—to the brink of madness every April. Worse, it would undermine one of the tax system's few good ideas. The credit—an earnings subsidy for the working poor—boosts incomes, reduces poverty, encourages work, rewards companies for creating jobs, and narrows inequality. It should be expanded, not made needlessly difficult to administer.

Yet that's exactly what Congress is mulling. Supporters say the extended application will combat fraud. It's hard to see how: Paid services aren't any less likely than individual filers to make "overclaims." Services such as H&R Block, aimed at ordinary taxpayers, are unknown in much of the civilized world. They shouldn't be necessary in the U.S., either. Congress could simplify things enormously by reducing tax rates while eliminating most of the exclusions, exemptions, deductions, and credits that have clogged up the code for years.

Politically impossible? Maybe so. In the realm of the more feasible, lawmakers could at least give the IRS the resources it needs to prevent fraud and help taxpayers navigate their increasingly dense returns. You never know: Bringing useless complexity to the attention of Congress might concentrate minds. B

PHOTO ILLUSTRATION BY OTHER MEANS; GETTY IMAGES (2)


How can falling trees lead to a rise in sustainability?
Ask Rowan.
Stan
Meet Dr. Joe Stanzione. He's researching how lignin, a major waste product of the paper industry, can be transformed into durable, next-generation plastics. His work could be a breakthrough for the planet and the economy. It's also a perfect example of partnership and entrepreneurial thinking at Rowan University's South Jersey Technology Park. If you want to have an impact in creating a truly sustainable future, ask Rowan.
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ask.rowan.edu #AskRowanU

Those Inflation Targets Ke

▶ **Central banks have promised higher inflation is on its way. They've promised that before**

▶ **Making policy decisions based on a poor understanding of inflation is a "recipe for disaster"**

Central bankers are failing to meet their own standards for inflation. With growth and trade down in much of the world, inflation is lower than they want it to be across the biggest economies: the U.S., Europe, Japan, and China.

Yet when central bankers met for the Jackson Hole Economic Policy Symposium in Wyoming in late August, the talk was about how inflation was really, truly, finally about to rise—in spite of the economic and market turmoil that was going on at lesser altitudes. "There is good reason to believe that inflation will move higher as the forces holding down inflation dissipate further," Fed Vice Chairman Stanley Fischer said in his prepared remarks. Bank of England Governor Mark Carney's prepared remarks cited "the prospect of sustained momentum" in the economy and a gradual pickup in inflationary pressures. And European Central Bank Vice President Vítor Constâncio's said that as long as Europe can succeed in gunning growth, "we can rely on a material effect to help bring the inflation rate closer to target." Speaking in New York City on Aug. 28, Bank of Japan Governor Haruhiko Kuroda insisted that Japan could hit its 2 percent inflation target next year, even though the latest reading for its preferred measure of inflation was precisely zero.

In the U.S., the Federal Open Market Committee is leaving open the possibility of raising the federal funds rate at its next meeting on Sept. 16-17, despite inflation that's been running below the Fed's target since April 2012. As reflected in futures contract pricing, the probability of a September increase in the funds rate dipped as low as 24 percent on Aug. 26 after global market gyrations. As of Sept. 2, the futures market was putting a 30 percent probability on a September rate increase.

Central bankers generally want a little inflation—2 percent is a typical goal—because it greases the gears of commerce. It's a sign that demand is strong enough to put upward pressure on prices. When prices are rising, it's possible to set interest rates below the inflation rate, stimulating borrowing. And troubled businesses can save money while avoiding layoffs by giving workers wage hikes below the inflation rate. Neither tactic is possible in a zero-inflation world.

Slumping growth, however, reduces the likelihood that central bankers will get what they seek. China's official factory gauge fell in August to its lowest in three years. Japan's industrial production slumped in July, the government announced. In the U.S., which has powered ahead better than most, manufacturing in August expanded at its slowest pace since May 2013.

At Jackson Hole, academics delivered a beating to central banks' confidence in their ability to predict and manage inflation by pointing out wide gaps in

ILLUSTRATION BY BRAULIO AMADO

eep Getting Harder to Hit

knowledge about how inflation works. Boston University's Simon Gilchrist said strict inflation targeting doesn't pay enough attention to financial shocks, which can disrupt economic output. Trying to influence inflation while not understanding it is a "recipe for disaster," MIT Sloan School of Management professor Athanasios Orphanides, a former ECB Governing Council member, said as a panelist.

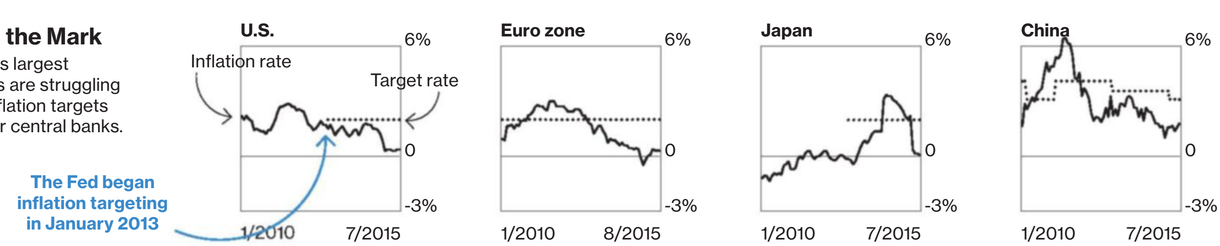
ECB President Mario Draghi skipped Jackson Hole, but he can't dodge this: Less than six months into a stimulus program that he promised would revive inflation, the euro area faces renewed disinflationary pressure. The ECB forecast in June that price gains would average 1.5 percent next year and 1.8 percent in 2017, provided its stimulus is fully implemented. The ECB's goal is inflation less than but close to 2 percent. That could be harder to achieve, given slower global growth. Philippe Gudin, chief European economist at Barclays in Paris, wrote in an Aug. 28 note to clients that the bank expects the ECB to do more bond-buying before yearend on top of its current €1.1 trillion ($1.2 trillion) program.

Japan's Kuroda is also under pressure to do more, regardless of his reassurance that monetary policy is on track. Only one economist in a recent survey by Bloomberg said inflation would reach the Bank of Japan's goal on schedule. And that survey was done before China's stock market worsened and the yen rose. "Deflation is the big problem for Japan," says Junko Nishioka, the chief economist at Sumitomo Mitsui Banking.

Narayana Kocherlakota, president of the Federal Reserve Bank of Minneapolis, worries that central bankers can't lower rates much more in case of further disinflation or outright deflation. Benchmark interest rates at all the world's major central banks are close to or even below zero, and together they've pumped trillions into their financial systems since the onset of the financial crisis. "I look at Japan, Europe, U.K., the Canadians—you just see that more and more countries are getting close to their effective lower ▶

Missing the Mark

The world's largest economies are struggling to meet inflation targets set by their central banks.



DATA REPRESENT THE PREFERRED MEASURE OF INFLATION OF EACH ECONOMY'S CENTRAL BANK. DATA: BUREAU OF ECONOMIC ANALYSIS; EUROSTAT; MINISTRY OF INTERNAL AFFAIRS AND COMMUNICATIONS; NATIONAL BUREAU OF STATISTICS OF CHINA

◀ bounds," that is, the lowest rates can possibly go, Kocherlakota said in an interview in Jackson. "This is the challenge facing central banks." —*Jeff Black, Christopher Condon, Peter Coy, Chikako Mogi, and Shigeki Nozawa*

The bottom line Central bankers say they can raise inflation to reach their targets, but interest rates at about zero won't be any help.

Justice

China's Hunt for Crooked Officials

▶ **The Communist Party's disciplinary arm wants U.S. cooperation**

▶ **"Our work is about winning people's hearts for the party"**

President Xi Jinping's anticorruption drive has punished more than 100,000 officials. But many suspects have fled abroad, where they remain frustratingly out of reach. For example, Chinese investigators say Qiao Jianjun disappeared in October 2011 after he embezzled millions from the state grain company, where he was a director in Zhoukou, Henan province. According to a government list released in April, Qiao was among 40 fugitives suspected of being in the U.S. Despite a U.S. indictment of Qiao, China has had a difficult time collaborating with U.S. officials over others on its wanted list, which is adding to tensions between the two countries on the eve of Xi's visit to the U.S.

The global hunt for these party members, known as Sky Net, is run by China's much feared Central Commission for Discipline Inspection. ("Sky Net" comes from an old saying attributed to the philosopher Lao Tzu, not the computer-based intelligence hounding the human protagonists in *The Terminator*.) The agency, which goes back to 1927, occupies a cement-and-glass building behind a massive stone gateway in central Beijing. The traditionally secretive commission has embraced a more public profile under Xi. It introduced a website in 2013; this year it released a smartphone app that makes it easy to snitch on a corrupt official. The CCDI expanded its number of inspection offices to 12 from 8 in 2013. Chinese media estimate CCDI staffers at about 1,000. Job postings seek those with computer skills and a degree from a top school. Party membership is a must.

Xi's campaign has felled two generals, China's retired security chief, and a former presidential aide. They're the "tigers," as Xi says. Sky Net's quarry are the midrank cadres who go astray—the "flies," according to one of the crackdown's catchphrases. The flies hurt the party as much as the tigers: Their crimes have local impact.

"Our work is about winning people's hearts for the party," says Fu Kui, who until recently ran Sky Net. Square-headed and blunt-looking in a white button-down shirt, Fu smokes as he talks in a room lined with maps. "Now that we're starting to hunt them down," he says, "the public is happy to see it."

Domestically, the CCDI sends inspection teams to provinces and state-owned enterprises in pursuit of party members abusing their positions. They set up shop for months at a time, conducting interviews and pursuing tips from the public. The CCDI can order detentions and further investigations to be carried out by law enforcement agencies such as the Supreme People's Procuratorate.

China and the U.S. don't have an extradition treaty. Instead, China generally must prove to the U.S. that fugitives have broken the law. The two sides talk through the U.S.-China Joint Liaison Group on Law Enforcement Cooperation. When they realized Qiao, the grain official, might be in the U.S., the Chinese sought help via the group, offering proof that Qiao and his ex-wife, Zhao Shilan, had violated U.S. law by falsely claiming they were still married when they applied for a visa.

The U.S. indicted Qiao and Zhao on immigration fraud and money laundering charges in July 2014 but kept the indictment sealed until March, when they arrested Zhao. She pleaded not guilty and is free on bail. Her lawyer, Kirk Davis, declined to comment.

The Qiao case is one of only two in the past decade in which the U.S. and China have acknowledged cooperating. The U.S. has been more helpful of late, Fu says, but it's clear that America—with its processes for protecting the rights of the accused—remains a headache. "The trend is for those who embezzled a big sum of money or held the highest positions to flee to the U.S.," he says. "If one country becomes the destination of many fugitives that we can't bring back, more will go there."

The U.S. Department of State said in a statement, "The United States is not a safe haven for fugitives from any country, and we reject any insinuation that we are hindering any other nation's campaign against corruption." A U.S. Department of Justice comment echoes those remarks. Although Qiao remains at large, Fu deems the case a success: "The indictment in itself is a support to China's effort to hunt down fugitives overseas." Fu won't be there to enjoy Sky Net's future triumphs: Since this interview in May, he's been reassigned to run the CCDI in Hunan province. —*Bloomberg News*

The bottom line China fears that failure to find fugitives in the U.S. will embolden other crooked officials to high-tail it to America.

Fiscal Policy

Algeria Tries to Tame Its Giant Black Market

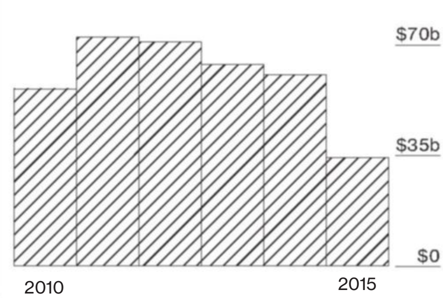
▶ **The government wants to tax the $40 billion underground economy**

▶ **"I heard about that measure. But we aren't paying any attention"**

Day and night, trucks trundle along the 10-mile road from the port of Algiers to the suburb of Semmar, where workers unload the goods that feed a vast black market. Merchants come from all over Algeria and pack the narrow streets to pay cash for grains, vegetables, and canned and dried fruit. They sell the goods at a markup in their own stores. Taxes paid? Not a dinar.

Bazaars such as Semmar—the largest wholesale source for black market, nonperishable fruit and vegetables ▶

Algeria's Oil and Gas Revenue



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FROM TOP: HULTON ARCHIVE/GETTY IMAGES; MELINDA SUE GORDON/PARAMOUNT/EVERETT COLLECTION. DATA: ALGERIAN MINISTRY OF FINANCE

in the country—are part of what the government figures is a $40 billion untaxed parallel economy in Algeria. That's the equivalent of 20 percent of gross domestic product.

The government says it can no longer tolerate the situation, because the oil price slump has slashed the state's chief source of revenue. So it is proposing an amnesty. Algerians accepting it have a year to deposit income from undeclared businesses with banks and pay a 7 percent fee—or face punishment. Future income must be reported to the authorities to be taxed.

For President Abdelaziz Bouteflika, another way to strengthen the budget would be to cut the generous government subsidies that keep prices of milk, cooking oil, wheat, and fuel low. Such official largesse has helped ward off the strife that's been sweeping through parts of the region, notably Libya, since 2011. It's a high cost to pay. When combined with social welfare benefits, the subsidies eat up 30 percent of GDP.

> "This is the typical Algerian approach. They wait until they hit the wall, then they panic and take the most unpopular and controversial measures." —*Riccardo Fabiani*

For now, foreign reserves of $158 billion as of June mean Algeria doesn't need to shut down subsidies. But it must do something to prop up dwindling revenue. "And that's why they are tackling this issue of the black market," says Riccardo Fabiani, senior North Africa analyst at the Eurasia Group think tank.

The government is saving money as well. Thousands of planned projects have been put on hold, except for housing. In the midyear budget released in July, officials unveiled tax changes to penalize importers and boost local production. The central bank has let the dinar depreciate to discourage imports. The currency fell to a record low of 105.55 to the dollar on Aug. 17 and is down about 30 percent since January.

Authorities have long observed an unspoken contract in which the state didn't interfere in the black market and the black market supported the state. Many black marketers are former Islamists who were involved in the savage civil war that ended in 2000. Previous efforts to end the illicit trade haven't worked. In October 2010, officials tried to enforce the use of checks for large transactions, making it easier to track the income of wholesalers. Several food suppliers refused to sell to retailers, resulting in shortages and protests that broke out just as the Arab Spring was starting in Egypt and Tunisia. The government rescinded the rule. The participants in the underground economy "are powerful constituencies," Fabiani says.

Traders at Semmar embody the challenge the government faces. "I heard about that measure," says Aziz, a shop owner who's bought in the wholesale market for about 15 years and who asked that his full name not be published. "But we aren't paying any attention," he says, standing by a truck laden with sacks of white beans he bought for 125 dinars ($1.18) per kilo and will sell for twice as much. "What would I gain?"

Ferhat Ait Ali, a former finance ministry official and now a financial analyst, says that thanks to the weak dinar, Algerians will begin to feel the rising cost of imports in the next few months. The cost of subsidies, which include imported items, will rise and increase the budget deficit.

Should oil prices and government spending stay near current levels, by 2017 the budget deficit will be so severe that subsidies will have to be cut. "That's when we'll see more serious reforms," Fabiani says. "This is the typical Algerian approach. They wait until they hit the wall, then they panic and take the most unpopular and controversial measures." —*Salah Slimani and Caroline Alexander*

The bottom line The government of Algeria is hesitating to cut subsidies of basic foodstuffs for fear of a popular backlash.

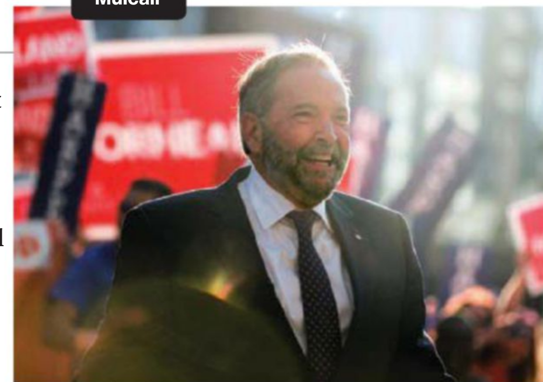
Politics

In Canada's Election, Voters Lean Left

▶ **The Conservatives face a stiff challenge from the New Democrats**

▶ **"The markets tend to shoot first and ask questions later"**

Mulcair



GEOFF ROBINS/AFP/GETTY IMAGES

At the national level, Canadian politics had always been a rivalry between two parties: the Conservatives and the Liberals. On Oct. 19, when Canadians vote for representatives to their House of Commons in Ottawa, the Conservatives under Prime Minister Stephen Harper will once again compete with the Liberals under Justin Trudeau, son of the late Pierre Trudeau, who was prime minister for a total of 15 years, from the late 1960s into the 1980s, and the Canadian leader most familiar to the country south of the border.

But Harper and his Conservatives are under assault by another party, one that people in the U.S. may never have heard of. The New Democratic Party, which has its origins in socialist and social democratic groups in Canada's west, is promising a center-left agenda that includes subsidized child care and higher taxes on corporations. It's polling at 33 percent, the Conservatives at 29 percent, and the Liberals at 28 percent, according to the Canadian Broadcasting Corporation. Canadians are starting to think New Democratic Party leader Tom Mulcair could be the next prime minister. That would be a first for the NDP, which has run various provinces but never led the nation.

Mulcair, a lawyer from Quebec, is exploiting a Sept. 1 release of data showing the economy contracted for the second quarter in a row. That means Canada on Harper's watch is technically in recession despite the prime minister's reputation for economic stewardship. Harper is seeking to become the first prime minister in more than a century to win a fourth consecutive term. Canadians historically get restless after the incumbent has been in office for two or three terms.

In a platform that echoes Harper's, Mulcair, a former provincial Liberal cabinet minister, is promising to balance budgets and deliver deeper tax cuts for small business while pledging new spending on social programs. The difference is Mulcair's intention to increase taxation of big corporations.

Two years ago, the NDP dropped the word "socialist" from its constitution. That's no salve to those who want to preserve the status quo. The Canadian

Imperial Bank of Commerce said in an Aug. 23 research note that the Toronto Stock Exchange's recent volatility stemmed in part from fear that neither Liberals nor Conservatives could form a government. David Rosenberg, chief economist at Gluskin Sheff, says global investors will require a premium to hold Canadian securities amid the uncertainty, especially if a minority government emerges. "The markets tend to shoot first and ask questions later," he says.

Populous Ontario has acted as a swing province in elections. Two decades ago, voters there elected the NDP during a recession but tossed it out after one term of deficit spending. An Aug. 31 Abacus Data poll found Mulcair's support in Ontario sliding, from 32 percent in mid-August to 26 percent at month's end.

The NDP was founded as a national party in 1961. Its leader was Tommy Douglas, a five-time premier of Saskatchewan, who's seen as the father of Canada's universal health-care system. Douglas's provincial government introduced social programs over a period of years, making sure budgets were balanced in the process. "Saskatchewan is the model for Mulcair," says David McGrane, a professor at the University of Saskatchewan, who's writing a book on the NDP. "He's going to increase social spending–that's exactly what Tommy Douglas did–but it's not going to be a sudden shock."

For 50 years, the NDP was a minor factor in Canada's House of Commons, but in 2011 it leapfrogged the Liberals and became Harper's official opposition. The "Orange Wave"–orange is the party color–had swept through Quebec, where New Democrats took previously unwinnable districts, propelled by the popularity of party leader Jack Layton.

Layton, who died in August 2011, "had charisma that basically Tom doesn't have," says Blair West, 79, a retiree and NDP supporter who attended Mulcair's recent speech in Saskatoon. Still, Mulcair is winning over party faithful who had doubts about the former moderate Liberal. Says Barb Campbell, another NDP supporter at the speech: "After seeing Mulcair speak, I think, yes, he would be a very good prime minister. I wasn't so sure before." —*Josh Wingrove*

The bottom line The NDP candidate Tom Mulcair wants to balance Canada's budget and still expand social programs.

Edited by Christopher Power
Bloomberg.com

Old joke: "A person with one clock always knows what time it is; a person with two is never quite sure"

The U.S. Economy

By Peter Coy

One and One Is Three

Gross domestic product has a twin: gross domestic income. Both are ways to measure the economy's size and growth rate. In July, President Obama's Council of Economic Advisers said an average of GDP and GDI is more accurate than either alone. Introducing gross domestic output, or GDO.

Gross domestic product

GDP adds up the spending on goods and services by sector

Personal consumption is the biggest chunk:

$12.2t

A second chunk is government salaries, purchases, and investment:

$3.2t

Next, the private sector's domestic investment:

$3t

The trade deficit reduces GDP, so it's subtracted here:

$500b

In the second quarter of 2015, these bits added up to an annualized GDP of

$17.9t

Gross domestic income

GDI adds up the income of producers of goods and services

Each dollar of spending in GDP is a dollar of income to somebody else. Employees get

$9.6t

This is what gets paid out in rents and profits:

$4.5t

Of course the government takes its share in taxes:

$1.2t

Depreciation—wear and tear—is netted out of the other categories, so it's added back here:

$2.8t

Add up the above and you get

$18t

GDP had a robust **3.7%** annual rate of increase in the second quarter compared with GDI's 0.6 percent growth rate

Without the rounding used in the figures above, there is a

$121b

difference between the GDI and the GDP. It turns out you can get a better handle on the economy using a simple trick: Split the difference!

The average, nicknamed gross domestic output by Obama's advisers, grew at a **2.1%** annual rate in the second quarter

Gross domestic output

$17,960,000,000,000

GRAPHIC BY BLOOMBERG BUSINESSWEEK. DATA: BUREAU OF ECONOMIC ANALYSIS

Cute Ads Only Go So Far

▶ **Health insurance startup Oscar has hundreds of millions in funding. Now it needs customers**

▶ **"We've got to show over time we can reduce health-care costs"**

Health insurance hasn't attracted much money from Silicon Valley investors. The industry is highly regulated and fiercely competitive, and turning a profit depends on signing up healthy customers and getting favorable prices from hospitals and doctors. Still, investors, including some Facebook backers, put hundreds of millions of dollars into health insurance startup **Oscar**.

"Insurance is a confusing system, confusing as hell," says Mario Schlosser, a computer scientist and former McKinsey consultant, who is Oscar's chief executive officer. He co-founded the company two years ago with fellow business school alums Joshua Kushner of venture capital firm Thrive Capital, and Kevin Nazemi, a veteran of Microsoft's health-care division. They hope to capitalize on the young, tech-savvy customers buying health insurance through the new markets created by the Affordable Care Act. Oscar operates in New York and New Jersey and will start selling coverage in California and Texas in November.

The founders say a slick app quickly connects customers and doctors, addressing a common complaint about health insurers, that finding the right doctor within a network takes too long. Two years in, Oscar has 40,000 customers in New York and New Jersey, exceeding the founders' expectations. And a user-friendly website allows subscribers to track and manage medical bills. The technology behind these tools is what separates Oscar from bigger, more established competitors, Schlosser says. Oscar collects data from customers' visits with doctors and analyzes how much they cost and the results. It uses that information to find savings. Schlosser says data collected on how members fare after doctor visits will help point them to the best doctors next time.

All that makes for good marketing opportunities—Oscar has plastered messages about how its insurance "looks like the rest of the internet" throughout New York City's subway system. But as the first new investor-backed health insurance company in New York in more than a decade—other newcomers include a plan created with federal

COURTESY OSCAR (2); ILLUSTRATION BY 731

funding and one started by a hospital—Oscar has had a rough couple of years.

The startup lost $37 million last year, which Schlosser attributes to expansion costs, including new hires. It took in $56.9 million in premiums in New York—a midlevel plan costs about $5,000 per year—but spent $66.3 million on doctors, hospitals, and drugs, plus $24.3 million on administrative expenses. About 200 very ill members accounted for roughly half the company's payouts for medical charges in its first year.

The company expects the losses to continue into next year, according to filings with state insurance regulators, given high administrative costs and low enrollment. Even so, Schlosser says Oscar has the resources to keep going: It was valued by investors at $1.5 billion in June, and it has more than $230 million in the bank. The company aims to sign up 1 million customers within five years and to operate in up to 30 markets.

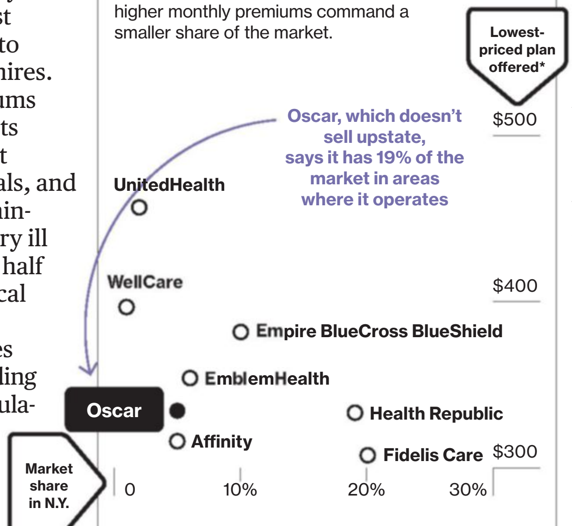
Oscar is a "very long-term investment," says Brian Singerman, a partner at **Founders Fund**, a VC firm and the startup's biggest investor. Other investors include **Horizon Ventures**, **Wellington Management**, and **Goldman Sachs**.

About 10 full-time nurses help manage the care of Oscar's costliest members—those diagnosed with diseases such as cancer and diabetes or recently released from a hospital. The nurses ensure patients take their medication and keep follow-up appointments.

Oscar doesn't sell in the biggest markets for health insurance: employer plans, private policies for the elderly, and Medicaid programs for the poor. That's in part because the Affordable Care Act made the individual market the easiest to enter. The insurance marketplaces create what Jeff Goldsmith, president of health-care consulting firm Health Futures, calls an "access point" for Oscar to take advantage of. "Your name and product are up there along with the competition," says Paul Ginsburg, a professor at the University of Southern California's Schaeffer Center for Health Policy and Economics. "It's much less expensive and faster than building a sales network."

The Cost of a High Premium

In New York state, health insurers with higher monthly premiums command a smaller share of the market.

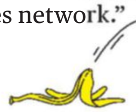


*INSURER'S LEAST EXPENSIVE BRONZE-LEVEL PLAN FOR AN INDIVIDUAL. DATA: NEW YORK STATE OF HEALTH

Oscar plans to sell to employers eventually but will need to build relationships with brokers and a broader network of doctors and hospitals. Medicare and Medicaid would require it to handle customers who are often sicker or poorer. Scale matters in those markets. **UnitedHealth**, the largest carrier in the U.S., has about 1,000 times as many members as Oscar in the U.S.

Consolidation in the industry will make it harder for the startup. In July, **Anthem** agreed to buy **Cigna** for $48 billion; **Aetna** struck a $35 billion deal for **Humana**; and **Centene** said it will acquire **Health Net** for $6.3 billion. The bigger insurers "are able to use their scale to get better prices from hospitals and doctors, which is the biggest part of the premium," says Bob Kocher, a venture capitalist at Venrock, who helped draft the Affordable Care Act as a special assistant to President Obama.

As Oscar prepares to expand into California and Texas, it has struck deals with select hospitals and physician groups to share the risks of treating patients. Schlosser declines to comment on the details of the arrangements. In such deals, hospitals and insurers typically estimate the costs of taking care of their members in a year. If the costs are lower, the hospital keeps some of the savings. If they're higher, the hospital foots some of the bill. The arrangements provide cost advantages but limit the size of Oscar's network.



The deals are probably Oscar's best chance at success, but it still faces tough competition in markets like Los Angeles, with at least half a dozen well-established rivals including **Kaiser Permanente** and **Blue Shield of California**. USC's Ginsburg says the best outcome would be for a competitor to buy Oscar. Worst case, it goes out of business, he says. That happened to SeeChange Health, a venture that started in 2008 and sold coverage via employers in California and Colorado. After raising about $35 million, it struggled to attract enough customers and has stopped selling insurance. Schlosser says Oscar has enough funding to survive for years and that selling is "absolutely the last thing on our minds."

Oscar has yet to prove it can take advantage of the opportunities created by Obamacare. "We've got to show over time we can reduce health-care costs," Schlosser says. "We've got to show we can improve quality of outcomes." —*Zachary Tracer and Adam Satariano*

The bottom line As the health insurance industry consolidates, Oscar—which lost $37 million in 2014—is expanding.

Food

Hampton Creek Throws Eggs at the FDA

▶ **The regulator says the upstart must rename its Just Mayo**

▶ **"We're not going to be bullied. We're not going to cower"**

Ask U.S. food regulators, and they'll tell you that mayonnaise has to contain eggs, as it has for the past two centuries. But Josh Tetrick, the Silicon Valley entrepreneur hellbent on disrupting a host of food staples with his plant-based substitutes, gives a far different response: Who cares? "I think it is stupid we can't call our product mayonnaise," Tetrick says of his two-year-old Just Mayo eggless spread. "I think it's ridiculous. We're definitely not changing the name."

That defiant stance seems to ▶

◀ put Tetrick's company, **Hampton Creek**, on a collision course with the Food and Drug Administration. The agency on Aug. 12 issued a warning letter listing a litany of rules broken by its Just Mayo and Just Mayo Sriracha products, including the use of "Mayo" in the name and the image of an egg on the label that may imply it meets the agency's standard definition for mayonnaise—eggs and all. "This is one of the most blatant violations of the standard-of-identity rules that I've seen in a long time," says Elizabeth Campbell, a former acting head of the FDA's office of food labeling, who now works at EAS Consulting Group.

One reason Tetrick is loath to back down: This is unlikely to be the last time a Hampton Creek product flaunts conventional notions of exactly what's supposed to be inside a well-known food item. His company makes plant-based egg substitutes, and he wants to upend the global food system by replacing animal proteins with sustainable, cheaper, and healthier vegetable ones. In the next five months, Hampton Creek plans to roll out scrambled eggs, pancakes, waffles, muffins, and other breakfast foods, as well as salad dressings like Caesar and blue cheese. None will contain eggs. Mayo will bring in one-eighth of the company's revenue next year, Tetrick predicts, without disclosing what that revenue will be. "The 'Just Mayo' thing is a blip compared to the wider array of issues there are," he says.

Hampton Creek has raised $120 million in funding, including a $90 million round last December, according to researcher CrunchBase. Its investors include Silicon Valley venture capital luminaries Peter Thiel and Vinod Khosla, as well as Bill Gates. The company is the latest in a string of Silicon Valley upstarts that have tried to change the world only to run smack into the reality of bureaucratic red tape governing the decades-old industries they're seeking to transform. **23andMe** had to halt sales of its health-related DNA analysis service to most consumers after receiving an FDA warning letter in 2013, because it failed to get FDA approval before marketing it. Its ancestry analysis service wasn't affected. **Tesla Motors** can't operate stores in Arizona and Texas because of state laws there prohibiting carmakers from bypassing local dealers and selling vehicles directly to consumers. And **Uber Technologies**, the online car service, has faced challenges from local governments in San Francisco and New York trying to cap the company's growth or force it to treat its drivers as employees instead of contractors.

Even if he can't rewrite two centuries of cooking tradition, Tetrick believes he can rewrite the FDA's rules, just as Uber has fought back against cities trying to stop its challenge to the taxi industry. Earlier this year, Hampton Creek hired two powerful Washington insiders to help wage its battle. Former Obama administration Secretary of Health and Human Services Kathleen Sebelius was brought in to advise the company in July. And Heather Podesta + Partners, run by the prominent Democratic Party fundraiser, registered to lobby for the company in June. Its filing said the firm would educate lawmakers about "innovative approaches to provide healthier and sustainable food products" and that it would be "highlighting the environmental benefits of sustainable agriculture."

"In my head, it's less about this particular issue. It's establishing a precedent of a different way to do things," Tetrick says. "We're not going to be bullied. We're not going to cower. There's a different approach that food needs. Truth is on our side."

Tetrick says he's been talking to people in Congress and reaching out to presidential candidates to change food rules. As a result, he says, staff with Rand Paul, Chris Christie, and Lincoln Chafee have asked him about food policy.

The FDA says its rules protect consumers. Jam should be jam. Ketchup should be ketchup. And mayo should be mayo, which means it contains egg yolk (which provides protein) whipped with oil. The rules for those condiments were among the earliest standards the agency set. Makers of mayo can add salt and other spices, but turmeric and saffron are banned—their yellow colors could imply more egg yolk than there actually is. Just Mayo is made with canola oil, filtered water, lemon juice concentrate, white vinegar, pea protein, and other ingredients.

Since the 1970s, former FDA official Campbell says, the agency has become more flexible. Instead of strictly defining "juice," for example, the agency asks companies to put on the label the percentage of juice in a product and which types of juices are included. But the mayo fight may have gone too far for the FDA to back off, Campbell says. Along with the name, Hampton Creek's packaging says the product is cholesterol-free. It contains too much fat to make that claim, the FDA says. Tetrick says he'll meet with the agency to discuss its concerns.

In fact, the agency probably wouldn't have sent a warning letter just about the name, Campbell says. But once it was alerted to the cholesterol-free claims, the FDA had to include the name as well. "Once the company has a warning letter, the company needs to correct everything in the warning letter," Campbell says.

If Hampton Creek doesn't comply, as Tetrick is threatening, the FDA can go to the Department of Justice and obtain a court order to yank Just Mayo ▶

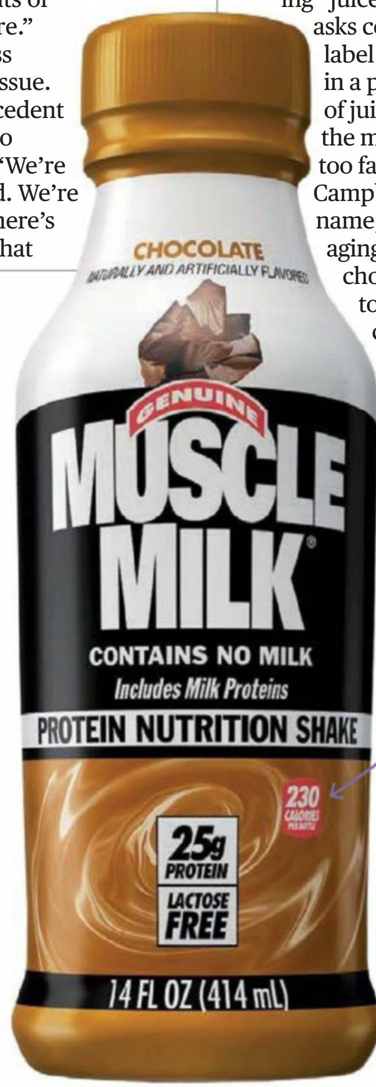
When the FDA Says No Way

Muscle Milk
A 2011 warning called the shake's label misleading, since it claimed to have no milk but contained milk protein. It's since been changed.

Kraft Singles
After a 2002 warning, Kraft pulled "food" from its label. The slices are now called a pasteurized prepared cheese product.

Kind snack bars
The FDA in 2015 said some varieties have too much fat to be called "healthy," as labeled.

Pom Wonderful
In 2010 the FDA said its pomegranate juice ads cited unproven therapeutic benefits. In 2015 an appeals court barred Pom from making such claims.

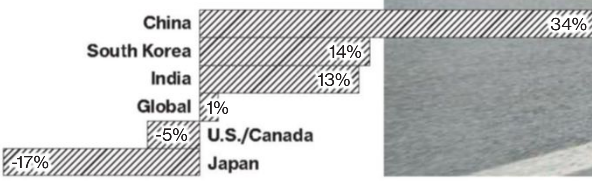


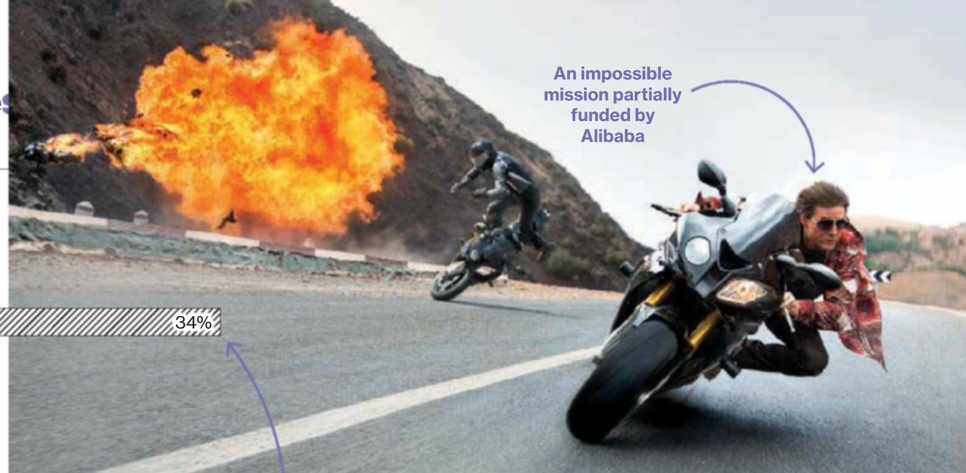
The FDA said some versions claimed to be lower in calories without providing a reference for comparison

COURTESY MUSCLE MILK

Hollywood Moves East

Change in box office revenue from 2013 to 2014





An impossible mission partially funded by Alibaba

◀ from stores and warehouses. The FDA declined to comment on its next steps.

Tetrick says he has to wage this battle. If he can't call it mayo—a product consumers instantly identify with—he can't sell it. He figures most consumers will eschew products with labels that scream the differences between plant-based mayo and the regular stuff. "When you start presenting things as alternatives," Tetrick says, "the only people who are going to buy it are in San Francisco and New York." —*Anna Edney, with Jim Snyder and Craig Giammona*

The bottom line Hampton Creek, whose Just Mayo doesn't include eggs, is challenging federal food-labeling rules.

Movies

China Has Hollywood's Attention. It Wants More

▶ Alibaba and other Chinese players see more than stars in Tinseltown

▶ They want to learn the film industry "from the bottom up"

Alibaba's Jack Ma, China's second-richest person, made headlines last year when he visited Hollywood looking for deals. He met with studio executives such as Sony Pictures' Michael Lynton and sat courtside at a Los Angeles Lakers game with super-agent Ari Emanuel and actor Jet Li. One memento of the trip surfaced this summer in the form of the Paramount Pictures hit *Mission: Impossible–Rogue Nation*. **Alibaba Pictures Group** invested in the feature, which generated $479 million in global box office through Aug. 30, and got the rights to sell merchandise and tickets to its 367 million customers in China when the film opens there on Sept. 8.

The deal with **Viacom**'s Paramount is one of more than a half-dozen in the past year between U.S. studios and Chinese companies that are quickly putting down roots in Hollywood. Alibaba, **Dalian Wanda Group**, **Huayi Brothers Media**, and others want to funnel films through their media outlets at home, as well as deepen their understanding of the lucrative business. "China is trying to learn why Hollywood is so successful," says Stanley Rosen, a University of Southern California political science professor who studies the relationship between the mainland and the U.S. film industry. China, he says, wants to master the business "from the bottom up."

Last year, China's theaters brought in **$4.8b**

Hollywood is happy to help. It needs the cash plus access to theaters in China, where the government limits the number of imported movies and controls how they are released. Such connections are crucial since China, projected to overtake the U.S. in box-office receipts by 2020, accounted for most of the growth in global movie ticket sales last year.

China's would-be moguls hope to use stronger Hollywood ties as a way to make even more money off entertainment. When *Mission: Impossible* opens there, Alibaba will sell tickets online through its Taobao Movie unit, one of the country's major ticketing platforms, which offers advance seat selection. People can pay using Alipay, Alibaba's version of PayPal. The company also is planning to build China's answer to Netflix and HBO, via a new service called Tmall Box Office.

Alibaba acquired a company called ChinaVision Media Group in 2014 to help it enter the business and renamed it Alibaba Pictures. The company sold HK$12.2 billion ($1.6 billion) in stock in June. Alibaba Pictures shouldered an undisclosed portion of the $150 million cost of making *Mission: Impossible* and said it's looking for more ways to invest in Hollywood. (Paramount, which declined to comment for this story, said in June it hoped the deal was "the first of many collaborations" with Alibaba.)

State-backed **China Movie Channel** also invested in the spy flick, saying it would promote the film and sell tickets online. In a first for U.S. audiences, the names of both Chinese companies were displayed in the opening credits of the movie, following the century-old practice of studios like Paramount.

People close to Alibaba say Ma's strategy is to invest in specific films, rather than in studios. But real estate mogul Wang Jianlin, China's richest man, is making bigger bets on infrastructure. Wang's Dalian Wanda Group operates the world's largest chain of movie theaters and is building the planet's biggest studio theme park, Qingdao Oriental Movie Metropolis, on the coast of Shandong province. Wanda controls the No. 2 U.S. theater chain, **AMC Entertainment Holdings**, and last year bought land in Beverly Hills, where it plans to erect a $1.2 billion complex it calls its "first important step into Hollywood."

"China is trying to learn why Hollywood is so successful." —*Stanley Rosen, University of Southern California*

Wanda, which footed the entire production cost of *Southpaw*, the summer release from **Weinstein Co.**, also donated $20 million to a museum being built in Los Angeles by the motion picture academy that awards the Oscars; its film history gallery will be named after Wanda. Wang, who's talked of buying stakes in studios **Lionsgate** and **Metro-Goldwyn-Mayer**, wants to control 20 percent of the global film market by 2020.

Over the past year, U.S. studios "are going to these big companies with ▶

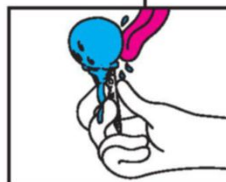
BO BRIDGES/PARAMOUNT PICTURES; DATA: MOTION PICTURE ASSOCIATION OF AMERICA

Briefs

By Kyle Stock

Carpool in Court

A federal judge ruled that *Uber* drivers in California could proceed as a class in their lawsuit against Uber claiming that they should have been treated as employees, rather than independent contractors, and seek additional pay. The decision exposes Uber and other businesses built on so-called on-demand laborers to legal challenges over the level of benefits they're required to provide to their temporary workforces. Uber, which has about 160,000 drivers in California, says it will appeal the class-action certification. *Lego* reclaimed its title as the world's biggest toymaker, as sales in the first half surged 23 percent, to $2.1 billion, besting Mattel's $1.9 billion. The Danish company got a boost in business from figurines and brick-building kits tied to blockbusters like *Jurassic World* and upcoming releases, including the next *Star Wars* installment. Carmakers rolled right past the late summer carnage on Wall Street, as drivers in August bought vehicles at the fastest pace in 10 years. Spurred by low fuel prices and cheap financing, the annual rate of sales for cars and light trucks hit 17.8 million, beating analyst estimates. *Google*'s antitrust struggles spread to India, where a commission accused the company of skewing search results to benefit its own businesses. Google said in a statement that it's reviewing the report of the three-year probe and is confident that it fully complies with the Indian competition laws. EBay's *StubHub* scrapped its "all-in" ticket pricing, reverting to a system in which it charges additional fees of 15 percent to 17 percent at checkout. In the 18 months or so that StubHub baked the fees into a single, higher price, its share of the $6 billion resale ticket market swooned.



Blue Bell is back. Four months after a massive recall tied to a listeria outbreak, the Texas food company restarted production of its ice cream, which is reappearing on store shelves in several cities.

Cost of the Ludicrous Speed Upgrade on **Tesla**'s long-delayed Model X. On Aug. 31, Tesla began letting customers who had reserved the new SUV to pick such options, suggesting deliveries will begin this fall.

$10k

CEO Wisdom

"Summer is ending and opportunity beckons."

Jefferies CEO **Richard Handler** in a letter to employees about recent stock market swings

single pictures and saying, 'Would you like to invest?' " says Robert Cain, a partner at Pacific Bridge Pictures, a film producer and consultant. "They're investing because the opportunity is now being presented, and that's only a recent phenomenon."

Huayi Brothers Media, a Beijing-based moviemaker and distributor, raised about $560 million in August from investors including Ma's venture capital outfit and **Tencent Holdings**, as well as Shanghai-based **Fosun International**, which has put $200 million into the **Studio 8** production company on Sony's Hollywood lot. Chinese private equity firm **Hony Capital** is among the backers of **STX Entertainment**, run by Robert Simonds, producer of films such as *The Pink Panther* and *The Wedding Singer*.

Even the Chinese government is getting in on the action. Besides *Mission: Impossible*, state-run China Movie Channel, the country's No. 3 TV network, invested in Paramount's *Terminator: Genisys*. **China Film Group**, the government-run distributor of all foreign movies, took about a 10 percent stake in **Universal Pictures**' car-heist thriller *Furious 7*, which cost $190 million to make and grossed $1.5 billion globally—a quarter of that within China. There are risks, of course. China Film also invested in Sony's Adam Sandler box office disappointment *Pixels*.

Cain says China's government is able to use its control over its lucrative home market to influence U.S. studios and exert soft power—the kind of cultural influence that's made Hollywood a global ambassador for America. China Film invested in *The Great Wall*, a thriller starring Matt Damon and Willem Dafoe about an elite force making a last stand for humanity on China's snaking barrier. It's targeted for a November 2016 release by Universal. Says Cain: "On a broad scale, China is steadily gaining more and more influence in Hollywood, and you won't see a Chinese villain probably ever again in a Hollywood movie." —*Anousha Sakoui, with Lulu Chen and Haixing Jin*

The bottom line More than a half-dozen Chinese companies have struck deals with Hollywood in the past year.

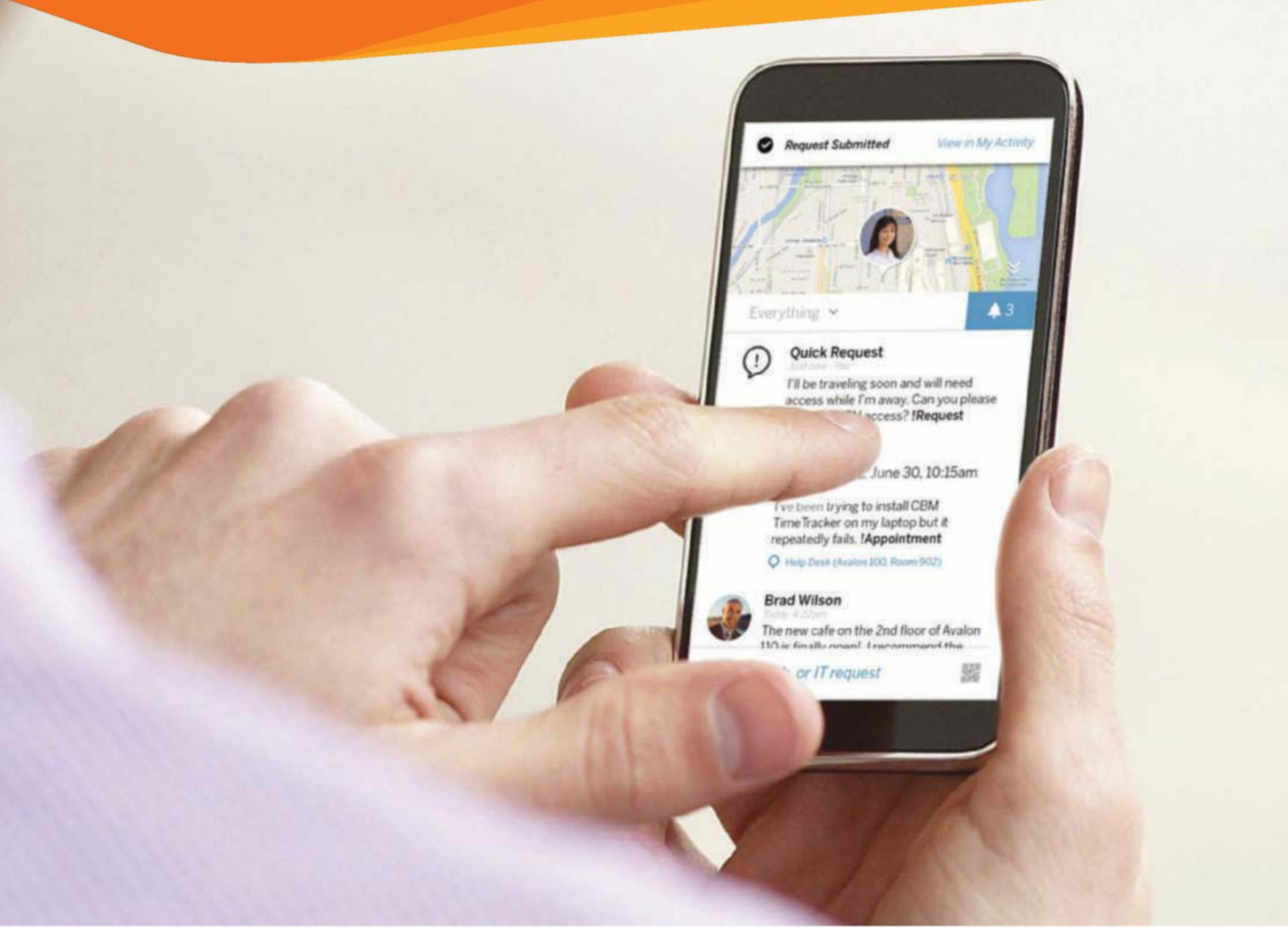
Edited by James E. Ellis and Dimitra Kessenides
Bloomberg.com

FROM TOP: ILLUSTRATION BY 731; KRIS CONNOR/GETTY IMAGES

IT introduces self-resolution IT

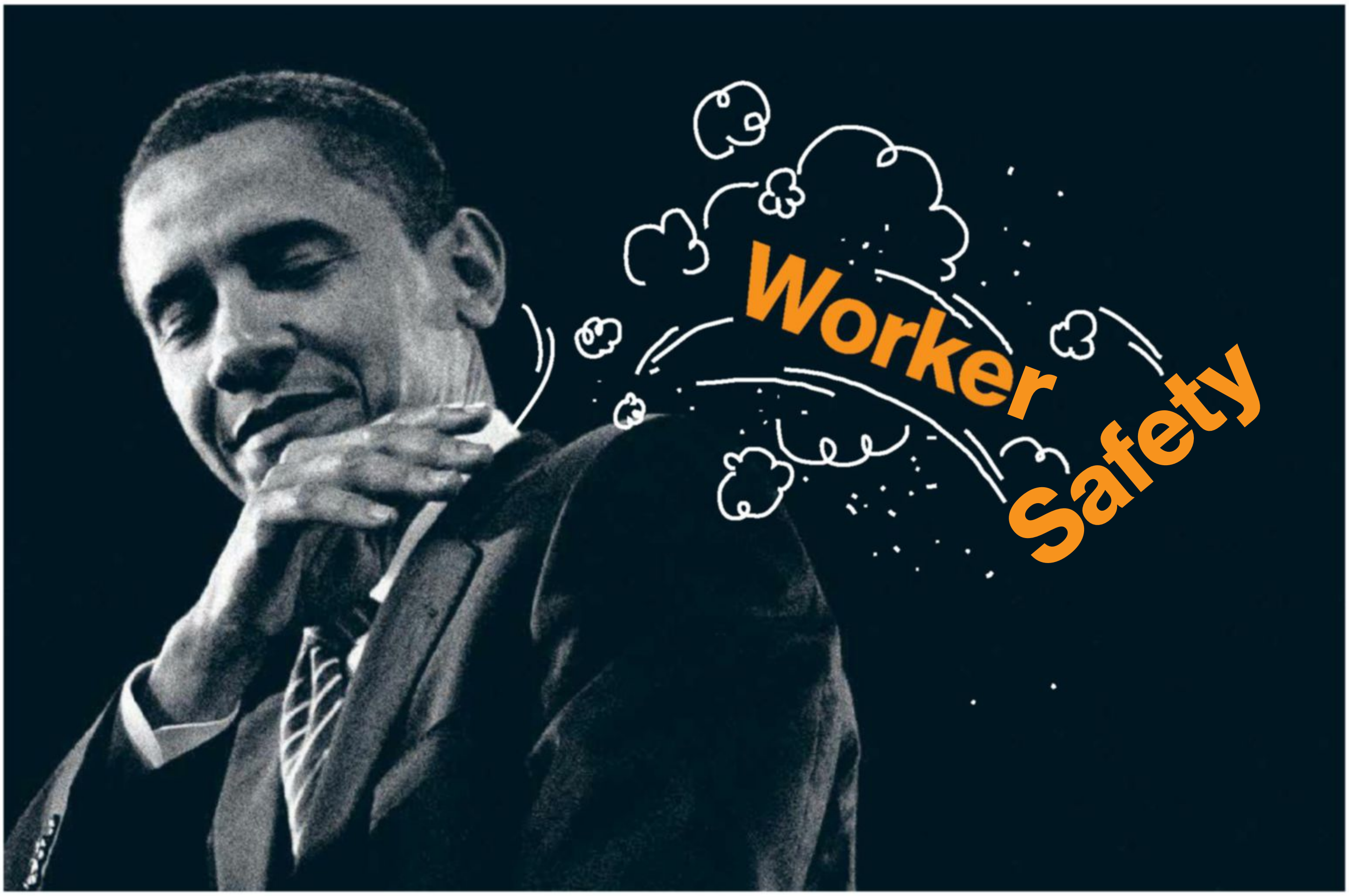
The new MyIT app enables employees to self-resolve tech issues via crowdsourced collaboration, reducing service desk calls by up to 92%.

Bring IT to Life at bmc.com/TryMyIT



bmc MyIT *for* Employee Productivity


Bloomberg
BRIEF



JAE C. HONG/AP PHOTO

▶ Obama may join other presidents who have tried and failed to contain industrial dust

▶ "They aren't able to address a long list of commonsense problems"

In a 2013 speech to the AFL-CIO, U.S. Labor Secretary Tom Perez shared the story of Alan White, a fortysomething man who told him, "If I walk a half a mile, I've got to sleep 13 hours." White, Perez explained, was a victim of silica, a mineral substance found in rock that's commonly released as dust during construction, mining, and fracking. Numerous studies have concluded breathing silica dust can cause the pulmonary disease silicosis, as well as lung cancer. "Alan's fear is that, in his case, the issue will be studied quite literally to death," Perez warned. "I don't want that to happen." Yet, when he was asked how soon the federal Occupational Safety and Health Administration (OSHA), which he oversees, might finalize long-discussed regulations on silica dust, he demurred. "You know," he said, "whenever you try to give a precise date, you always end up being wrong."

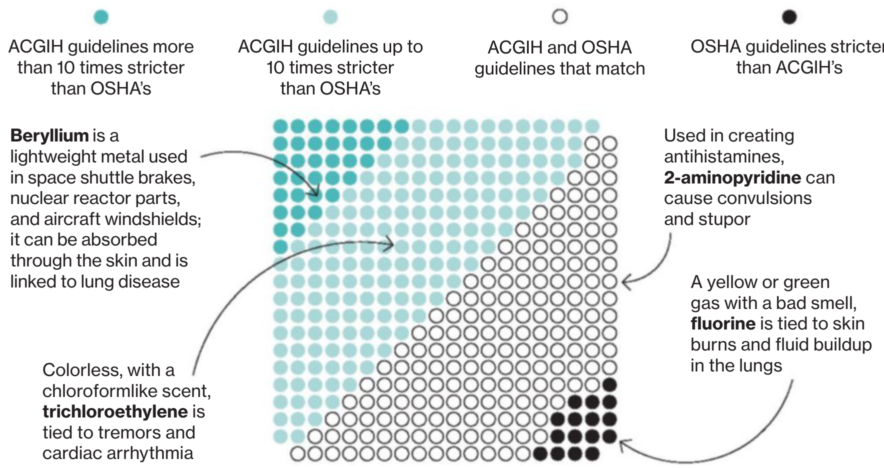
Since 1974, the federal Centers for Disease Control and Prevention has consistently recommended that OSHA issue a stronger rule to control silica exposure, which OSHA estimates would save 699 lives and prevent 1,626 silica-related illnesses a year. OSHA began working on silica under President George W. Bush, and in December 2009 it announced a schedule for publishing a proposed regulation by July 2010. In February 2011, months behind schedule, the agency sent a draft rule to the White House for what was supposed to be a 90-day review. Instead, the Office of Management and Budget held on to it for two and a half years. "The silica rule got caught up in a larger debate about regulations and the economy," says Seth Harris, then acting secretary of labor.

The struggle to control silica is part of a pattern of weakness that characterizes OSHA. "They aren't able to address a long list of commonsense problems, because the process of addressing them is just too hard," says Harris, now a private attorney and a distinguished scholar at Cornell. The agency has a small budget and an ever-lengthening list of bureaucratic boxes it needs to check each time it wants to toughen regulations. "We made silica a priority from the beginning of the Obama administration, and it still takes seven or eight years," says OSHA head David Michaels. "We will get it out before the end of President Obama's term."

Since OSHA was created in 1970, workplace deaths have dropped by about two-thirds. But the agency's fallen short of its founders' ambitions, especially when it comes to substances that kill over time. Congress gave OSHA a "general duty" ▶

Two Sets of Guidelines for 397 Chemicals

In 1971, OSHA adopted standards from the American Conference of Governmental Industrial Hygienists. The ACGIH has updated its advisories; OSHA hasn't kept up.



DATA: CENTER FOR PUBLIC INTEGRITY; OSHA; CDC

◀ authority to address some known dangers, but that's been hemmed in by courts. OSHA has a 48-step rule-making process that includes conducting health studies and soliciting public comments.

Most of OSHA's chemical rules, including the one governing silica, were adopted in 1971 from the American Conference of Governmental Industrial Hygienists (ACGIH), a nonprofit that develops workplace safety guidelines. While ACGIH continued updating its safety guidelines, most of OSHA's haven't changed since. "To enforce a standard, you have to set one," says Rebecca Reindel, a senior health and safety specialist for the AFL-CIO.

OSHA's existing silica standard requires construction companies and shipyards to limit the level of silica in the air at work sites to around 250 micrograms per cubic meter as an eight-hour time-weighted average and other industries to limit it to about 100 micrograms. OSHA first announced in 1974 it intended to write a stronger silica rule. In 1989, on the day before Ronald Reagan left office, it issued an omnibus air contamination rule that would have applied to hundreds of substances including silica, but a federal appeals court threw it out. Bill Clinton's OSHA acknowledged a silica issue but prioritized an effort to regulate ergonomic injuries, only to have that new rule scrapped by Congress as soon as he left office. "Right now, with the current requirements, it can't be done in four years," Michaels says.

Skeptics of the proposed silica rule say there's good reason for taking it slow. "The process is definitely a tedious process," says former George W. Bush OSHA chief Ed Foulke. "It makes sure that the standard is well thought-out." The National Federation of Independent Business, a trade group, says the change, which cuts the allowable silica concentrations in the air by at least half, would cost businesses $7.2 billion a year and eliminate about 27,000 jobs over a decade. Dan Bosch, the group's senior manager for regulatory policy, says OSHA should focus on increasing compliance with the existing silica regulation. "We think the current standard has been working," he says. "There hasn't been enough effort to help businesses comply with the rule as it currently stands." OSHA estimates that the rule would cost about $664 million per year and yield $5.3 billion in economic benefit by preventing death and chronic illness.

OSHA was supposed to finish reviewing public comment on its proposed rule in June. "If OSHA is unable to get out a rule on silica, something with such strong scientific evidence and completely feasible controls, then we can pretty much eliminate the notion that OSHA can get out regulations on any kind of health standard," says former OSHA legislative analyst Celeste Monforton, now a lecturer at George Washington University. "You might as well just rip those pages right out of the OSHA statute." She argues that the agency needs a streamlined rule-making process and more leadership from the White House.

Obama has already threatened to veto Republicans' proposed budget for the U.S. Department of Labor, which includes an amendment from North Dakota Senator John Hoeven requiring fresh studies before OSHA finalizes its silica rule. "It's costly and unworkable," says Hoeven, whose state has benefited from the fracking boom. Labor advocates say they're pressuring the White House not to let the issue go. "I suspect that Obama's going to get a lot of heat if he negotiates away the silica rule during the negotiations over that budget," says Mary Vogel, executive director of the National Council for Occupational Safety and Health. "Certainly he'll take a lot of heat from activists like us."

Yet, even if a rule goes into effect, both sides expect business interests to take the issue to court. "We'll expect to explore all of those strategies," says Associated Builders and Contractors Vice President of Government Affairs Geoff Burr, who cites the decline in deaths from complications of silicosis—from 1,065 in 1968 to 111 in 2013, according to the CDC—as evidence that the issue has already been addressed. "We think this is a problem that is pretty well under control," he says.

"The country ought to be just as outraged over seven people dying from terrorism or seven people dying from silicosis," says AFL-CIO President Richard Trumka, "because those are seven citizens that didn't need to die either way." *—Josh Eidelson*

The bottom line OSHA has been trying to update silica rules since 1974 but still hasn't succeeded.

Taxes

Republicans Tap Their Own Tax Mavens for '16

▶ A think tank beefs up to help sell candidates' tax plans

▶ "There's a whole lot of assumptions about behavior you have to make"

When it comes to tax policy, Republican presidential candidates have a holy grail: tax cuts that pay for themselves by unleashing economic growth. In 2012, the dominant voice when it came to judging candidates' proposals—from Herman Cain's 9-9-9 plan to Rick Perry's flat tax—was the Tax Policy Center

(TPC), a Washington nonprofit jointly backed by the Brookings Institution and the Urban Institute. Its leaders and advisers include prominent Democrats and a few Republicans. In the final months before the election, it released a study suggesting Mitt Romney's tax claims didn't add up. President Obama seized on the report, using it to argue that Republicans would raise taxes on the middle class. The campaign felt it had no way to fight back, says Lanhee Chen, then Romney's policy director. "At the end of the day, there is something special about numbers," he says. "There is something about what people perceive to be independent, hard analysis, even though you can argue that the TPC has its ideological leanings."

> **"There is something about what people perceive to be independent, hard analysis."**
> *—former Mitt Romney adviser Lanhee Chen*

Republicans have no intention of finding themselves in a similar position in 2016. In the past three years, donors have pumped millions into the Tax Foundation, a think tank whose analyses tend to be kinder to Republican proposals than those used by the TPC, which doesn't assume tax cuts can boost growth. Take the tax plan Marco Rubio developed with Utah Senator Mike Lee. It would cut rates, let companies write off capital investments all at once rather amortizing them over several years, and eliminate taxes on capital gains and dividends. According to the Tax Foundation, that would unleash an economic boom, with an eventual net gain of $94 billion a year for the U.S. Treasury. A plan by Rand Paul to institute a consumption tax would have similar—though smaller—effects, according to the Tax Foundation. (The TPC hasn't yet released an analysis of either plan.)

The Tax Foundation allows candidates access to its model before they release their plans, so they can refine their proposals. "They can test-drive it, so to speak, and work out all the bugs before they go live," says Scott Hodge, the foundation's president.

The think tank's board includes tax executives from PepsiCo, Microsoft, and Eli Lilly, as well as two former Republican congressmen, Pennsylvania's Phil English and Bill Archer of Texas. In 2014 the foundation raised $3.7 million, split about evenly between businesses and nonprofits. That's up 73 percent from 2012. The expansion followed the think tank's absorption in late 2012 of the Institute for Research on the Economics of Taxation, a small nonprofit run by Stephen Entin, who served in the Treasury under President Reagan.

Entin provided the Tax Foundation with his economic model, which incorporates projections about how individuals and businesses will change their behavior in response to various tax incentives—and about how those changes will affect the overall economy. The model doesn't try to predict how the Federal Reserve would respond to higher deficits, a key feature of dynamic models used in government, because Entin believes the Fed's decisions have limited impact on long-term investments. It also assumes that expansions of benefits such as the child tax credit, which don't affect marginal tax rates, have zero stimulative effect on consumer spending.

Economists of both parties have questioned the assumptions used by the Tax Foundation, particularly that letting companies write off the value of their investments in a single year can yield dramatic increases in capital spending. In August, Keith Hall, the Republican-appointed director of the Congressional Budget Office, said tax cuts don't pay for themselves. "There's a whole lot of assumptions about behavior that you have to make" in any model, says Eric Toder, a co-director at the TPC. "It's not just a matter of simple mechanics of savings and investment."

The TPC has refined its tax model, too, and it's contemplating a review panel to examine its analyses before they're released during the coming campaign. "It's important to exercise extreme caution so that people don't think we're trying to play favorites or play sides, because we're not," Toder says. Romney adviser Chen says it's important for Republicans to make a data-based case to voters—and to have a buffer against Democratic claims that their tax cuts benefit the rich: "You're much better off in a 'he said, she said' than in a 'he said.' " —*Richard Rubin*

The bottom line Republicans may benefit from a tax policy think tank whose analysis is favorable to tax cuts.

Education

Schools Want the Sky to Be the Limit on Loans

▶ University lobbyists are mobilizing to fight ceilings on borrowing

▶ "My college is unhappy because of something you are proposing"

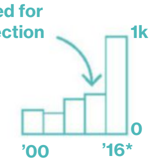
For the past nine years, graduate students in the U.S. have had almost a blank check to take out as much as $80,000 a year in government-backed loans to pay for tuition and living expenses. Republican Senator Lamar Alexander of Tennessee thinks that's too much. He's introduced legislation, backed by his Democratic colleagues Michael Bennet of Colorado and Cory Booker of New Jersey, to limit borrowing to $30,000 a year, with a cap of $150,000. Programs with especially high costs could appeal to the U.S. Department of Education to ▶

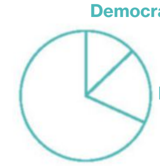
Digits

1,012

47 percent filed in August

Individuals who have filed with the Federal Election Commission to run for president in the 2016 election, which allows them to raise funds but doesn't guarantee they'll appear on any state ballot





*2016 FIGURES THROUGH 9/2/2015; DATA: FEDERAL ELECTION COMMISSION

◀ let their students borrow up to $15,000 more each year.

Colleges, whose lobbyists and trade associations have succeeded in defeating just about every attempt to control rising tuition costs over the last decade, are trying to soften Alexander's proposed law, which would also radically simplify the federal student aid application. "I don't think that bill will be enacted as is," says Carolyn Henrich, a lobbyist working for the University of California system in Washington. Henrich, who formerly lobbied for the National Parent Teacher Association, says she's met with Alexander's staff to register the university's opposition to the loan limits.

Cornell University doesn't like the Alexander loan limits either. Neither does the Association of Jesuit Colleges & Universities, which includes Boston College, Fordham, and Georgetown. Harvard, Northwestern, and Vanderbilt have indicated in filings that they've lobbied on the Alexander bill, though they haven't publicly taken a position for or against the loan limits. "We believe in a strong federal aid system that benefits all students and also serves the needs of graduate and professional students," says Harvard spokeswoman Anna Cowenhoven.

$176k

Average medical school debt upon graduation

The presence of university lobbying in Washington dates back at least to World War II, when the federal government began awarding large research grants. "The people running the government were graduates of the top schools, so they" wanted their own schools to get the grants, says Gerald Cassidy, a Washington lobbyist who represented dozens of colleges and universities over the years before he retired in December. In the 1970s and '80s, many institutions brought their lobbying in-house, opening Washington offices. Nan Wells, who established Princeton's D.C. lobbying office in 1979, says she focused on research funding, student aid, and maintaining tax exemptions for donors. "One of the nice things about the job," she says, is that "the issues were the same every year."

Thomas Weko saw the influence of the college lobby as a staffer for the Government Accountability Office a decade ago. The Senate directed the GAO to study an antitrust exemption allowing almost 30 elite colleges to discuss policies for disbursing private scholarship money. Weko says college lobbyists participated—unannounced—in a call that he held with Senate staff about designing the GAO study. "You felt them pulling the strings as you participated in meetings with Senate staff," says Weko, now a managing researcher at the American Institutes for Research, a Washington-based nonprofit that evaluates social policies. An extension of the exemption sailed through Congress this summer.

Colleges made a major lobbying push in 2009, when the Education Department tried to overhaul Perkins Loans, a $1 billion government-backed revolving fund for low-income students, says Bob Shireman, a former deputy under secretary of education. The Obama administration's proposed change would have expanded the program but redistributed the cash among schools. "We would hear, 'My college is unhappy because of something you are proposing,'" he says. "We dropped the whole thing."

Schools argue that low-income students wouldn't be able to afford expensive programs if the government scales back its lending limits. Matthew Shick, a senior legislative analyst with the Association of American Medical Colleges—whose students graduate with an average debt of $176,000—has met with Alexander's staff. "When you go to med school, you are talking about complicated simulation equipment, clinical rotations, labs with cadavers," he says. "This adds to the cost." His group spent almost $5.2 million lobbying last year, according to the Center for Responsive Politics, almost four times as much as the next biggest spender, the for-profit giant **Apollo Education Group**.

Some lower-priced public universities are fine with introducing limits on student debt. The amount graduate students are allowed to borrow is "a little outrageous right now," says Susan Fischer, who oversees financial aid at the University of Wisconsin at Madison. Others say graduate students should be trusted to understand how to manage their financial obligations. "They know what they are doing," says Jonathan Burdick, vice provost for enrollment at the private University of Rochester. "People are not as dumb as the public dialogue seems to think they are." —*Janet Lorin*

The bottom line With tuition at all-time highs, colleges are lobbying Congress not to limit how much grad students can borrow.

Agriculture

Turkeys Could Use Obamacare, Too

▶ Minnesota poultry farmers ask for federal bird flu insurance

▶ How to pay for an outbreak is "top topic No. 1 through 5"

The arrival of cooler weather in the upper Midwest has poultry farmers worrying about the return of bird flu, which last spring wiped out more than 48 million chickens and turkeys nationwide. The U.S. Department of Agriculture spent $191 million to contain the outbreak—though the total cost is closer to $700 million once cleanup, disinfection, and vaccine research are included, Agriculture Secretary Tom Vilsack said in July.

That still doesn't cover farmers' lost sales. It took John Burkel more than three months to repopulate his turkey barns near Badger, Minn., after the flu claimed 14,000 of his birds in a single week. He'll have just two-thirds of his usual supply to sell this Thanksgiving—as long as flu doesn't strike again. "I don't know if a guy could do this two times in a row, to be honest," he says.

U.S. Senator Amy Klobuchar, a Minnesota Democrat, thinks Burkel shouldn't have to. Almost half of all bird flu detections were in her state, the nation's top turkey producer. In 2014, before the flu hit, she succeeded in getting language into the federal farm bill authorizing a USDA study into how to create insurance for poultry and pig producers along the lines of public programs covering growers of corn, soybeans, and other commodities prone to

weather disasters. Klobuchar is pushing the agency to complete the study and move quickly to come up with a solution to ensure farmers like Burkel don't go under. "This is a way of life for these producers," she says. One option is to expand the program that already covers cleanup costs after an outbreak. "You could keep the USDA's current program and add insurance to losses not currently covered," she says. "You could make insurance a part of indemnification. You could have different programs for different types of birds."

Insurance against bird flu is "top topic No. 1 through 5" among poultry producers right now, says John Anderson, an economist with the American Farm Bureau Federation. But setting up a bird flu insurance program is harder than doing so for crops because outbreaks are more difficult to predict.

Private insurers say it's almost impossible to write policies covering bird flu losses as long as the risk of another outbreak remains high. **Palomar Insurance** in Atlanta, which tailors risk management policies to the needs of specific industries, is studying how to pool bird flu risks with other hazards, but it hasn't generated much interest from underwriters. "If we get through the fall with minimal problems, then it becomes more palatable," says Des Yawn, a Palomar senior vice president. "If there's a risk that what happened this year happens every year, there isn't going to be much interest."

National Crop Insurance Services, the Overland Park (Kan.) group that represents government-backed farmer insurance programs, referred questions about bird flu insurance to the USDA, which said it will report to Congress on the feasibility of a program later this year. Minnesota turkey farmer Burkel isn't waiting around. He's increasing his flu prevention measures, putting double screens on his roof vents to keep out wild birds and washing every truck that enters or leaves his farm. "At a certain level, you will always be responsible for your own barns," he says. "I can tell you this: I don't want to spend my time composting the turkeys in my barn. That is something I never want to do again." —*Alan Bjerga*

The bottom line Private insurers say there's no market to insure farmers against bird flu, so the government may act.

Edited by Allison Hoffman
Bloomberg.com

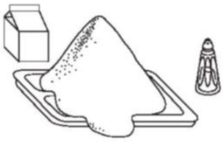
PHOTO ILLUSTRATION BY 731; PHOTO: GETTY IMAGES

A Bill

By Erik Wasson

Saltier School Lunches

S. 1800 Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriation Act, 2016



The essentials

1. Republicans are trying to undo school meal standards adopted in 2010 as part of the anti-childhood-obesity initiative championed by First Lady Michelle Obama. Senate Republicans have included language in the annual U.S. Department of Agriculture spending bill that would limit implementation of those school lunch standards in case they aren't able to pass a separate bill, expected to be introduced in mid-September by Kansas Senator Pat Roberts, that would rewrite them from scratch.

2. The government spends $30 billion a year on child nutrition. Under the 2010 law, schools get an extra 6¢ per meal if they offer food with reduced sodium, 100 percent whole grains, and half a cup of fruit or vegetables. In January, the School Nutrition Association, which represents meal providers, requested revisions, including halting the implementation of the low-sodium restriction, reducing the whole-grain requirement to 50 percent, and making fruit servings optional.

3. On the other side of the debate are doctors, the Union of Concerned Scientists, the United Fresh Produce Association, and military groups who say making school meals healthier is crucial to guaranteeing the physical readiness of recruits. "When you look at the current cohort of 18- to 24-year-olds, an incredible number of them are not eligible for military service," says D. Allen Youngman, a retired Army major general. "We hope the Congress will resist the temptation to tinker with it."

Vital statistics

Sponsor
Jerry Moran (R-Kan.)

Title I Agricultural Programs pp. 2-27

Title II Conservation Programs pp. 27-28

Title III Rural Development Programs pp. 29-46

Title IV Domestic Food Programs pp. 46-51

Title V Foreign Assistance and Related Programs pp. 51-54

Title VI Related Agency and Food and Drug Administration pp. 54-60

Title VII General Provisions pp. 60-85

Blocks spending to meet standards without studies showing sodium reduction is beneficial for kids

Would allow school districts to claim exemptions from whole-grain requirements

September 7 — September 13, 2015

Where the Internet Revolution Is Waiting To Happen

▶ Cuba has set up 35 Wi-Fi hotspots for its 11 million citizens

▶ "It's stupid how much they've delayed the inevitable"

DESMOND BOYLAN/CORBIS

Julio Hernández is a telecommunications engineer, but he has to get online like almost everyone in Cuba: crouched on a dusty Havana corner with his laptop, inhaling car exhaust in sweltering heat. Hernández, and scores of other people crowded around the same corner, endure the discomfort to make use of a rare Wi-Fi hotspot, one of 35 installed around the island nation in July by state telecom monopoly Etecsa. It costs $2 an hour, pricey given that the average state-paid salary is $20 a month. "This is one of the busiest streets in Havana," says Hernández, a former government employee, as cars roar past and antique air conditioners drip moisture on the ground nearby. "It makes it impossible to even do a video call on Skype."

Still, any Internet access is a huge improvement, says Ramón Mazón, a pizzeria worker who's crouched nearby. "Before this we had nothing," says Mazón, who traveled 15 miles to the ▶

◀ hotspot to try to set up a video chat with American relatives, so far unsuccessfully. But, he says, "In this day and age we should have access to Internet a few hours a day, just like we have food ration cards."

Cuba's Internet access ranks among the worst on earth. Just 30 percent of its 11 million citizens used it at all last year, according to the United Nations' International Telecommunication Union. (The number was 87 percent in the U.S. and 57 percent in Cuban ally Venezuela.) President Raúl Castro's government says at least 50 percent of Cubans will have residential Internet service by 2020, and 60 percent will have mobile phones. Officials haven't detailed how they plan to achieve that.

"It's stupid how much they've delayed the inevitable," says Carlos Alzugaray, a onetime Cuban ambassador to the European Union and a former professor at the University of Havana. "Meanwhile, we're losing ground. We're in the Stone Age."

Critics of the Castro regime say it's slowing the expansion of broadband to restrict access to information. While the government's filters don't compare to China's—websites including those of **Yahoo!** and the U.S. Department of State are accessible, as are some blogs that criticize the government—sites that are explicitly anti-Castro are blocked, as is pornography. Internet connections are in a smattering of workplaces, top tourist hotels, select business centers, approved media outlets, and fewer than 4 percent of homes, including those of senior officials, foreign executives and media, doctors, and artists. The Internet isn't available on the country's 1991-vintage cellular network.

Cuba's Online Stone Age

Portion of populace that used the Internet in 2014

DATA: INTERNATIONAL TELECOMMUNICATION UNION

In most connected public spaces, including government ministries, universities, and hospitals, getting online requires the beeps and buzzes of a dial-up modem. State-run cybercafes charging $4.50 an hour for relatively low-speed broadband opened just two years ago, recently dropping hourly prices to $2.

In January, the Obama administration's push to normalize U.S.-Cuba relations made it legal for American telecommunications companies such as **Verizon** and **AT&T** to do business there. Since January, **Airbnb** and **Netflix** have begun operating in Cuba, and other U.S. technology companies, including **Google**, have made quiet visits in the past several months to assess the market and weigh opportunities.

Google offered the Cuban government a large enough supply of Internet-ready antennas to bring high-speed connections to 70 percent of the nation's homes within three years at little to no cost, according to journalist Fernando Ravsberg, who writes the blog Cartas Desde Cuba (Letters From Cuba). Cuban officials told Ravsberg they didn't accept the offer because they were suspicious of Google's associations with the U.S. State Department and worried that the company's technology could be used to spy on Cuba or promote sedition. Google spokeswoman Niki Christoff declined to comment.

The hotspot where Hernández and Mazón are squatting hints at the possibility of change. Etecsa, the state-controlled telecom, says it's testing 3G and 4G mobile phone service, but who will have access is unclear. According to a document leaked in July to the blog La Chiringa de Cuba (Cuban Kite), Etecsa plans to build residential broadband using Chinese providers such as **Huawei Technologies** and **ZTE**.

Harold Cárdenas, co-founder of the blog La Joven Cuba (Young Cuba), says that while he wants an open Internet as soon as possible, he understands why his government may be hesitant to make deals with U.S. companies. "If you were in a dispute with your neighbor for 50 years and now you're friends, it's a little risky to give your neighbor access to your whole garden, because you might be fighting again tomorrow," he says. "A country's telecommunications is a matter of national security."

At the same time, "The government has to give Internet to the people or it's going to lose the hearts and minds of Cuban youth," says Cárdenas. "That's already happening." In the lobbies of top tourist hotels, rare oases of broadband Wi-Fi, tech-savvy young Cubans discreetly surf on their phones, sharing Wi-Fi connections or using apps to log in to servers overseas to circumvent fees as high as $17 for two hours. Memory sticks sold widely on the black market give Cubans access to foreign television, too. "To open or not open the Internet is a silly argument," says Ravsberg of Cartas Desde Cuba, because to some extent, "Cuban censors have already lost control of the information people have." —*Indira A.R. Lakshmanan*

The bottom line About 30 percent of Cubans used the Internet last year. The government has been slow to expand access.

Mobile

The Cheap Phones Quietly Winning the U.S.

▶ China's once-embattled ZTE almost doubled its share in 15 months

▶ "ZTE is a little shrewder in how to work in the American market"

In most **AT&T**, **Sprint**, or **T-Mobile** stores, it takes a while to find the **ZTE** phones, buried in the back, past the latest from **Apple** and **Samsung**. But they're there. In AT&T stores it's the ZTE Maven, which has a screen, speakers, and a processor with capabilities somewhere between the iPhone 5 and 6. As Tony Greco, ZTE's head of U.S. retail marketing, puts it, "These were state-of-the-art features two years ago." The Maven's draw, really, is price. Without any subsidies from a wireless carrier, the phone costs just $60. And it's not even one of the company's cheaper models.

ZTE is quietly becoming a force in the U.S. by selling good enough phones at low prices—smaller prepaid smartphones for $30, basic phones with QWERTY keyboards for about the same, and so on. The Chinese company's products are among the cheap phones of choice at three of the big four U.S. carriers. (**Verizon** doesn't carry them.) ZTE

ILLUSTRATION BY 731

$60

for the ZTE Maven, with hardware a year or two behind the $650 iPhone 6

8% of the U.S. market went to ZTE in the second quarter of 2015

claimed about 8 percent of America's smartphone market in the second quarter of this year, says researcher IDC, up from 4.2 percent in the first quarter of 2014. That ranks the company fourth among smartphone makers overall, behind Apple, Samsung, and **LG**. "We came from nowhere, and now we are a solid force," says Lixin Cheng, head of ZTE's U.S. operations.

In the U.S., the company was best known for years for making network routers and switches for mobile operators. Its phone sales are all the more surprising because it's been frozen out of the more lucrative telecom networking market since 2012. That year, the House Intelligence Committee issued a report warning that China's intelligence services could potentially use ZTE's equipment, and those of rival **Huawei Technologies**, for spying. Huawei then dismissed the allegations as "little more than an exercise in China bashing."

"We were unfairly lumped in with those complaints," says Cheng. But in any case, officials "made it clear that phones weren't a concern." So while Huawei essentially moved out of the U.S., shifting the North American focus of its networking equipment business to Canada, ZTE began concentrating on smartphones. Cheng, an Ericsson veteran who joined the company in 2010, figured that American consumers wouldn't know or care about the congressional heat.

After starting modestly with small carriers such as MetroPCS, ZTE landed some of its prepaid phones in bigger carriers' stores and expanded from there. Besides phone stores, its products are on sale at **Wal-Mart**, **Target**, and **Best Buy**. While the brand is hardly famous, it's doing much better in the U.S. than Chinese powerhouses such as **Lenovo**, which has seen its share of the market drop from 5.3 percent to 3.1 percent since the first quarter of 2014. Chinese leader **Xiaomi**, which is focused on emerging markets such as India and Brazil, has avoided the U.S. so far.

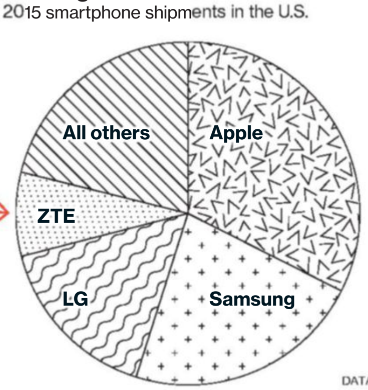
To boost its U.S. street cred, over the past two years ZTE has teamed with the NBA's Houston Rockets to make phones with their logo and app, and is also working with the New York Knicks and Golden State Warriors. To win over critics in Washington, the company has upped its lobbying expenditures from $170,000 in 2011 to $950,000 last year, according to Senate records. "ZTE is a little shrewder in how to work in the American market" than other Chinese phone makers, says James Lewis, a senior fellow at the Center for Strategic & International Studies, a Washington think tank.

ZTE's next challenge in the U.S. will be translating higher sales into higher revenue. While its U.S. market share has nearly doubled since early 2014, revenue is up 4 percent, from $354 million to $369 million. That means ZTE has gained share only by making its phones cheaper. And it doesn't have the home market to fall back on: The company is No. 8 in China with just 3 percent of the market, down from 10 percent in 2012, according to researcher Canalys. The nation's stock meltdown has carved 36 percent from ZTE's Hong Kong-listed share price since its June peak, leaving its market value at $10.3 billion.

In July, ZTE rolled out the Axon Pro, a higher-end phone that sells for $450 on its website, **Amazon.com**, and **EBay**. It's unclear whether customers will respond to, or even notice, the sleeker model, but Peter Ruffo, senior director for government relations at ZTE's U.S. arm, says the campaign to change the company's image will pay off eventually. "ZTE is taking the long view," he says. "We are very patient." —*Bruce Einhorn*

The bottom line ZTE is now the No. 4 smartphone brand in the U.S., but its increased share hasn't yielded much revenue growth.

A Growing Slice
Q2 2015 smartphone shipments in the U.S.



DATA: IDC

Apps

Lyft Tries to Think More Locally

▶ **The company is shifting to an Uber-like system of city managers**

▶ **"Uber is way ahead. All they can really compete on is time"**

Rex Tibbens is the kind of guy who likes to spend hours cruising around a track in the dinged-up Porsche 944 he bought for $500. So it's a little weird that his job is to make owning a car unnecessary. During his first five months as chief operating officer of **Lyft**, he's had to think more like customers his children's age, who don't have quite the same affinity for owning vehicles. "When I was a teenager, the car was freedom. Not so much for kids," says Tibbens. "Their freedom is in their pocket."

After about a decade apiece at Toyota and Dell, Tibbens spent four years as a vice president at Amazon.com, helping to manage the Kindle e-reader, the tech support service Mayday, and the logistical nightmares that come with same-day delivery. His latest challenge is bringing a dose of Amazon's obsessive efficiency to three-year-old Lyft, San Francisco's second-place ride-hailing service. "He's impatient about things being better, which is great," says Lyft co-founder ▶

◀ John Zimmer. "He is a no-bulls--- type of leader." (Lyft's investors include venture firm Andreessen Horowitz. Bloomberg LP, the parent company of *Bloomberg Businessweek*, is an investor in Andreessen Horowitz.)

Compared with **Uber**, Lyft looks scrappy, friendly, and a bit hapless. Uber is valued at $51 billion, Lyft $2.5 billion. Uber operates in more than 300 cities around the world, Lyft in 65, and only in the U.S. In June, term sheets for an Uber fundraising round put its annualized revenue at $415 million. Earlier this year, a Lyft fundraising presentation put its 2014 revenue at about $130 million.

10

Number of Lyft city managers, spread across 65 markets. Uber has hundreds

In terms of management, one of the biggest differences is delegation. Uber has hundreds of local managers operating as mini-CEOs in each city where it operates. Lyft's co-founders, Zimmer and Chief Executive Officer Logan Green, resisted Uber's decentralized model for years, choosing to directly oversee the vast majority of its driver networks from the company's San Francisco headquarters. Lyft has 10 city managers—one each for the nine biggest markets, such as New York and Chicago, and one who covers 40 smaller cities. The strategy saved money but meant the service often didn't know enough about the cities it was working in, says Tibbens.

Soon after starting at Lyft, Tibbens, a plain-spoken, Mountain Dew-drinking Kentuckian, organized a weeklong field trip for executives to meet with drivers and passengers in five cities. He, Green, and two other executives spent the trip debating Lyft's local strategy. Tibbens started to win the argument for more local managers as they met with a series of drivers and passengers who complained about Lyft's mapping tools and raised questions about hang-ups that Lyft's San Francisco-based executives hadn't predicted because they applied to individual cities. "I think the realization is that we are local and we have this bias to our own market," says Zimmer. Tibbens says he'll hire 10 more city managers this year, focusing on cities where Lyft hasn't yet set up shop.

In a business where more drivers lure more passengers and vice versa, being No. 2 is hard. Lyft testified to the New York City Council's transportation committee in June that it had 7 percent of the ride-hailing market in town, while Uber had 90 percent. Drivers who say they prefer Lyft often drive for Uber as well. Even Travis VanderZanden, who preceded Tibbens as COO, defected to Uber. Lyft is suing VanderZanden for allegedly taking confidential internal documents with him. VanderZanden has counter-filed, denying the charges. Both companies declined to comment on the suit. "Uber is way ahead," says Evan Rawley, a professor at Columbia Business School who studies the taxi industry. For Lyft to catch up, he says, "All they can really compete on is time."

At headquarters, Tibbens's team spends much of its time working to reduce the number of minutes between Lyft hail and pickup in a particular city. In April, Austin riders spent an average of four minutes waiting for a car; riders in Denver, Seattle, and Miami, five minutes; New York took six, a modern-day eternity. Today, Tibbens says, the number is below three minutes in each case, thanks to weekly planning that zeroes in on particular problems (flooding in Austin, bridge delays in New York) rather than trying to make changes across the country.

"We're back to basics," says Woody Hartman, Lyft's vice president for operations. "Does this block have enough cars?" —*Eric Newcomer and Brad Stone*

The bottom line Lyft is giving up on managing most of its operations from San Francisco and recruiting more specialists in individual cities.

Digits

$44b

Samsung Electronics' loss in market value since April. The company's profits have fallen for five quarters, its longest losing streak since 1983.

Samsung's smartphone share has been squeezed between iPhones and cheaper Chinese models

E-Commerce

When Shopkeepers Help You Tap 'Buy'

▶ **Indian startups give rural stores a cut to sell to villagers via tablets**

▶ **"They will only buy from someone they know and trust"**

Since 2013, at least $8.6 billion has poured into Indian e-commerce companies. The slice of the population that's ever shopped online: 4 percent. As the country's leading Internet bazaars—**Flipkart**, **Snapdeal**, and **Amazon India**—hawk wares to the urban, English-speaking middle class, they're all but ignoring the 510 million working-age adults living in rural areas.

"These people don't trust an app or a website" even if they have a phone, says Krishna Lakamsani, founder of e-commerce startup **IPay**. "They will only buy from someone they know and trust." That's why IPay and rival **StoreKing** are recruiting local shopkeepers to sell online goods in their stores in exchange for commissions.

By relying on merchants to persuade people to buy online, IPay says it moves about $1.6 million worth of merchandise each month through 6,000 shopkeepers' tablets in India's southern states; StoreKing sells $4.2 million through 10,000. The early returns are promising, even if they're a sliver of Flipkart and Snapdeal, each of which says it sold $300 million worth of goods in June. Amazon wouldn't disclose sales.

During a February visit to the grocery store near her home outside Hyderabad, Anusha Mangalarapu, was just looking for sugar. But at shopkeeper Ganesh Panjala's urging, she toyed with an IPay tablet and ended up ordering dishes. "I've been shopping here since childhood, and when Ganesh showed me this new service, I decided to try it," the

COURTESY YOUNGHYUN CHO AND SHU YANG (4); DOUG PENSINGER/GETTY IMAGES

college senior says. She's since ordered clothes, a phone, a DVD player, and a scooter cover through the shop's tablet.

For the shopkeepers, commissions range from 4 percent to 10 percent, and the tablets—$134 from IPay, $226 from StoreKing—quickly pay for themselves. During the eight months Panjala has had the IPay unit, he says, each day he's done about $30 worth of business on it, one-seventh of his sales.

Using shopkeepers to push the tablets means IPay and StoreKing don't have to worry about training most customers to order through their apps. Because shipments get delivered to the shops, there's less risk of losing goods on remote roads. And the buyers pay cash, so the companies don't have to invest in electronic payment systems. "We've been generating operating profits from Day One," says StoreKing Chief Executive Officer Sridhar Gundaiah. "That's something none of the big e-commerce companies can boast of." Amazon and Snapdeal say they're experimenting with kiosks that also help customers buy online.

It'll be a decade before most IPay or StoreKing customers are Web-connected and savvy enough to buy from one of the bigger e-commerce companies on their own, says Anil Joshi, founder of Unicorn India Ventures. "As long as people don't have smartphones or don't know how to use apps, these services will flourish," says Joshi. "As the infrastructure improves, these guys will suffer."

By then, the two-year-old startups say, they'll be indispensable. StoreKing, which has received about $5 million in venture funding from early Skype backer **Mangrove Capital Partners**, buys spare truck space from a network of deliverymen working for companies such as Unilever and Nestlé. CEO Gundaiah says his delivery model could be an asset for bigger companies.

IPay plans to give shopkeepers a cut of a wider range of services, including rail tickets and utility payments. Already, Lakamsani says, IPay gets 40 percent of its revenue from fees people pay to add voice minutes to their prepaid phones. When they come in for minutes, he says, that's the time for the upsell. *—Adi Narayan and Sharang Limaye*

The bottom line StoreKing and IPay are creating a rural e-commerce market in India by selling via tablets in thousands of local stores.

Edited by Jeff Muskus
Bloomberg.com

Innovation

Concussion Detector

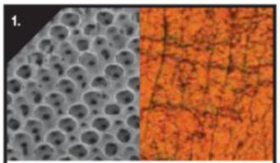
Form and function
The force of a collision can be measured by a chemical strip that changes color based on the effect of the impact on tiny, embedded crystals. The goal is to incorporate the material into helmets for athletes and soldiers.

Innovator Shu Yang

Age 45

Materials science and engineering professor at the University of Pennsylvania

1.



Crystals The colors of the crystals that make up Yang's strip are created by their underlying structures, instead of pigment.

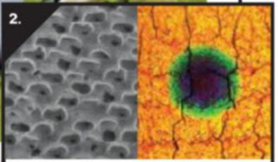
Origin Bell Labs veteran Yang and her researchers began work on force-sensitive crystals in 2010.

Background Sports-related brain trauma sends 248,000 U.S. kids and teens to emergency rooms each year. Returning to play after a concussion increases the risk of more severe damage.

Funding Yang's team, which includes two other UPenn researchers and collaborators at Temple and Villanova universities, has spent $100,000 on R&D. Yang may seek private funding to commercialize the material.

Related projects Several companies are working on sensors and blood tests that can quickly identify concussions in sports, but none have been widely adopted.

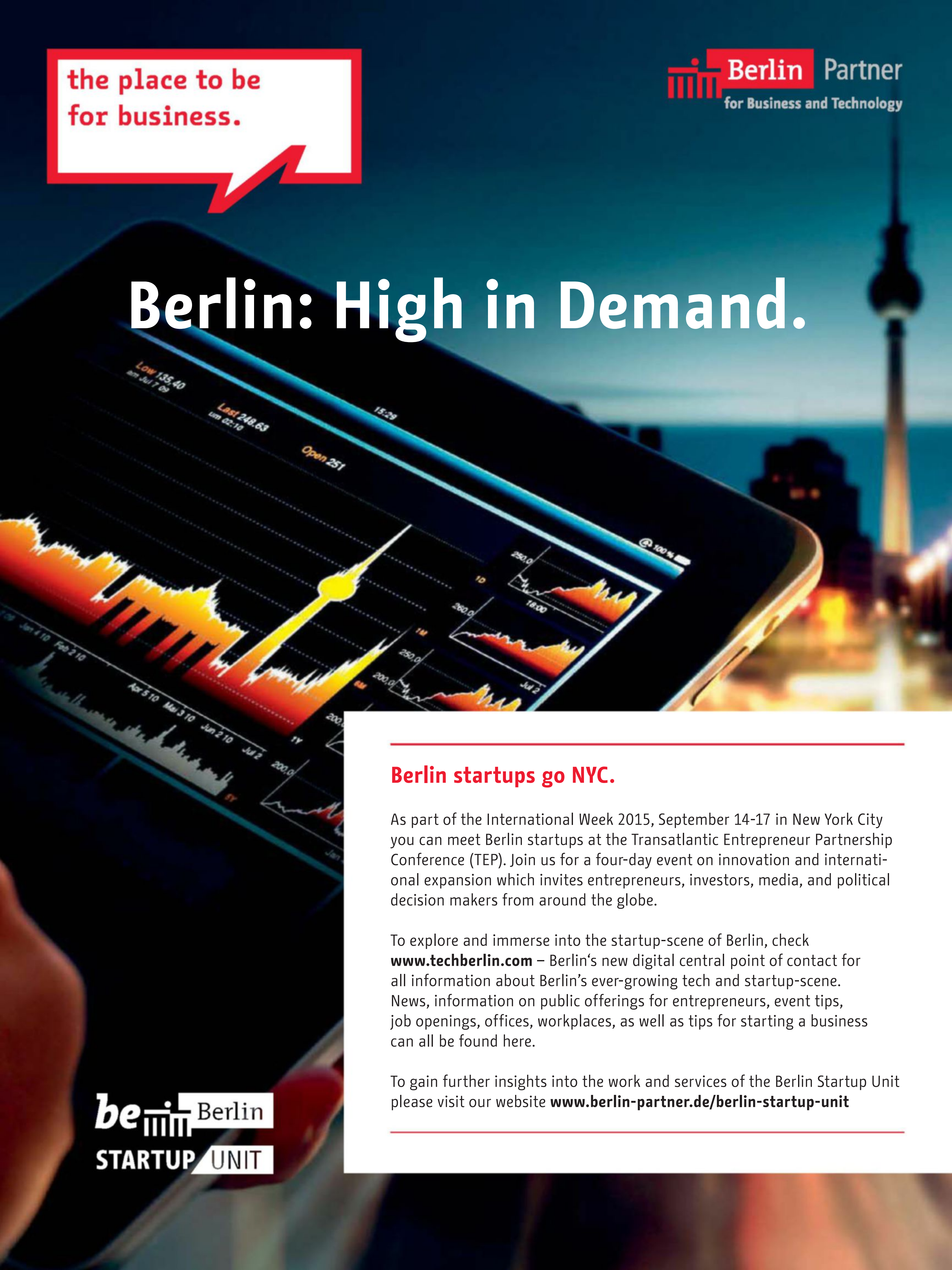
2.



Impact When a hard blow changes the shape of the crystals, the color changes, too. The force equivalent to a sedan crashing into a brick wall at 80 mph turns the crystals green, while a greater force—equivalent to a truck at the same speed—leaves them purple.

Next Steps

While Yang's crystals reliably measure force, Richard Figler, a surgeon at the Cleveland Clinic and former team physician for the NFL's Cleveland Browns, says head injuries are singularly difficult to evaluate given that "no one's been able to predict in clinical cases how much force it actually takes to cause a concussion." Yang says her material is at least three years from market. Her team is refining the crystals to measure impact speed as well as force. *—John Tozzi*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Berlin startups go NYC.
As part of the International Week 2015, September 14-17 in New York City you can meet Berlin startups at the Transatlantic Entrepreneur Partnership Conference (TEP). Join us for a four-day event on innovation and international expansion which invites entrepreneurs, investors, media, and political decision makers from around the globe.
To explore and immerse into the startup-scene of Berlin, check **www.techberlin.com** – Berlin‘s new digital central point of contact for all information about Berlin’s ever-growing tech and startup-scene. News, information on public offerings for entrepreneurs, event tips, job openings, offices, workplaces, as well as tips for starting a business can all be found here.
To gain further insights into the work and services of the Berlin Startup Unit please visit our website **www.berlin-partner.de/berlin-startup-unit**
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STARTUP UNIT

▶ Xi Jinping's government searches for scapegoats as stocks plunge

▶ "They don't quite get how to work with these markets, don't know what they're doing"

To commemorate the 70th anniversary of Japan's World War II surrender, China planned a 12,000-soldier march down Beijing's Chang'an Jie—Eternal Peace Street—on Sept. 3. For President Xi Jinping, it was a chance to project an image of calm, order, and strength. Unfortunately for Xi, China's financial markets are sending a completely different message.

Since the stock market started melting down in mid-June, wiping out $5 trillion in shareholder value, the government has tried a series of increasingly desperate measures to halt the slide. The latest looked like an attempt to shift blame: In a campaign to crack down on alleged market manipulation, it arrested executives at **Citic Securities**, China's largest brokerage, an employee of the China Securities Regulatory Commission, and a journalist at *Caijing*, a business magazine.

The Citic executives, including Managing Director Xu Gang, admitted insider trading, according to Xinhua, the state-run news service. The journalist, Wang Xiaolu, admitted wrongly reporting on July 20 that the CSRC was studying whether to end stock market support measures, causing panic and confusion, Xinhua said. A Citic representative declined to comment, and *Caijing* didn't answer calls. The magazine has said it will cooperate with authorities.

The government also continued to intervene more directly. It ordered brokerages to contribute an additional 100 billion yuan ($15.7 billion) into a stock market rescue fund. In the currency market, the government has spent hundreds of billions of dollars to stabilize the yuan following a surprise devaluation on Aug. 11. And the People's Bank of China (PBOC) cut interest rates on Aug. 25 for the fifth time since November. Still, investors weren't impressed: The Shanghai composite index fell 2.2 percent in the three days leading up to the victory march. It's now down 39 percent from its June peak.

Xi's government is struggling to balance a pledge to loosen its grip on the economy with the desire to ensure stability and maintain confidence in the ruling Communist Party. The battle between the invisible hand of the market and the iron fist of the government creates confusion and chaos, making China the biggest threat to ▶

ILLUSTRATION BY 731

◀ the global economy and financial markets. "They don't quite get how to work with these markets, don't know what they're doing—that view is already out there," says Nicholas Field, emerging-markets strategist at money manager Schroders in London. "It's one of the reasons why global markets have sold off."

When Xi came to power in 2012, he had a different vision. He rounded up corrupt officials, flexed muscles in territorial disputes with neighboring countries, and pushed to reshape the global financial landscape by establishing the Asian Infrastructure Investment Bank.

With the economy growing at its slowest pace since 1990, Xi's administration pledged to let market forces play a bigger role to unleash China's potential. Foreign investors were allowed unprecedented access to the mainland stock market, while policymakers pushed to make the yuan a global reserve currency and lobbied companies that create investment indexes to add China to their benchmarks. Through policy changes, official statements, and articles in state-run publications, the government encouraged the public to buy stocks. Throngs of rookie investors piled in, many using borrowed money, helping to send the Shanghai composite up more than 150 percent in a year.

When the debt-fueled rally turned into a rout for China's 90 million individual investors, the government moved to stop the bleeding, putting its credibility on the line. Officials banned large shareholders from selling stakes, ordered state-run institutions to buy stocks, and allowed more than half of listed companies to halt trading. As the plunge continued, the devaluation of the yuan shocked global investors, deepening a selloff in emerging-market currencies and erasing $7.7 trillion in global equity value. The PBOC has since tapped its $3.7 trillion in reserves to steady the yuan.

Many economists and strategists say the stock intervention measures are temporary and Xi will press ahead with reforms once calm returns. "They are not going to permanently go back to full state control," says Clement Miller, an investment strategist at Wilmington Trust. "They'll move in the direction of market-oriented measures, but this is definitely a delay and setback." In a deregulatory move in late August, the central bank removed the interest rate cap on savings deposited for more than one year.

"I've always been a great believer in Chinese pragmatism, just considering what they've done over the past 30 years. Yes, reforms will continue."
—Enzio von Pfeil, Private Capital

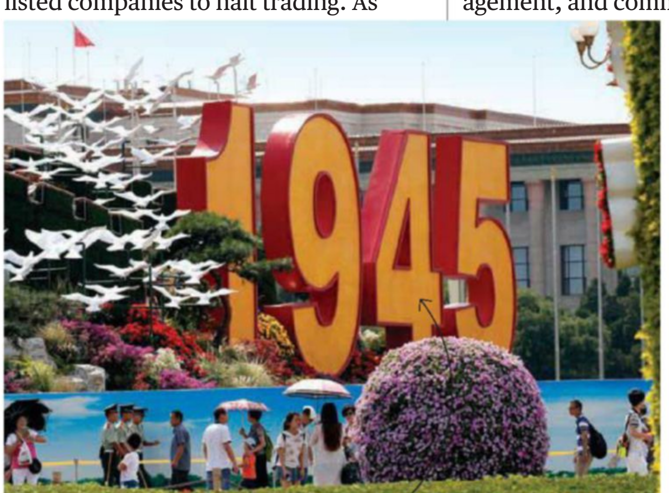
The yuan devaluation was accompanied by reforms meant to give market forces more influence over the exchange rate. "I've always been a great believer in Chinese pragmatism, just considering what they've done over the past 30 years," says Enzio von Pfeil, Hong Kong-based investment strategist at advisory firm Private Capital. "Yes, reforms will continue."

The confused response to the market slump has shifted long-held perceptions that the Chinese government is in firm control of the economy and knows how to maintain stability. Even as China gave market forces a bigger say and welcomed global investors to its once-isolated markets, its policymakers have been caught unprepared in areas such as regulation, crisis management, and communication with the public. Investors are getting mixed signals about the government's intentions, and many are left to speculate about whether the rescue measures are designed to support specific price levels for stocks or simply to reduce wild swings in the market. And if the government truly wants the yuan to be a freely traded global currency as it claims, why is the central bank intervening in the market to support the exchange rate so soon after a devaluation? "The interventions are damaging China's credibility as a legitimate investment market," Miller says.

There are few signs the volatility will soon die down. Even after the swoon, stocks in the Shanghai composite are expensive. At 24 times projected earnings for the next 12 months, the median price-earnings ratio of companies in the benchmark is almost 50 percent higher than that of companies in the Standard & Poor's 500-stock index.

In the foreign exchange market, traders are bracing for more declines in the yuan, because new data on manufacturing and exports are likely to provide additional evidence of a slowing economy. Bets on the currency known as 12-month nondeliverable forwards indicate traders are expecting a decline of about 4 percent in a year. Michael Wang, a strategist at hedge fund Amiya Capital in London, says the government will have to learn to live with the volatility, the natural consequence of unleashing the market forces. "They are now realizing that it will be harder than they thought, and they are retreating from that strategy" of heavy-handed intervention, he says. "But the damage is done in terms of perception." *—Ye Xie and Gabrielle Coppola, with Belinda Cao and Kana Nishizawa*

The bottom line With $5 trillion in stock market value having disappeared since June, China's government is looking scared and confused.



Stock turmoil is casting a shadow over Beijing's victory commemoration

NG HAN GUAN/AP PHOTO

Crime

Chief, Do These Initials Look Suspicious to You?

▶ **TOL and LDL in an e-mail can signal something shady is going on**

▶ **"Taking a conversation offline provides evidence of intent"**

Criminals always slip up. They leave behind fingerprints. Hair. A cigarette butt. A telltale acronym.

TYOP (tell you on phone), TOL (talk offline), and LDL (let's discuss live) are red flags for prosecutors combing through the e-mail transcripts of Wall Street traders suspected of illegal activity. No need for a crime lab. A simple

search of e-mails—Control-F on the keyboard—provided under subpoena or voluntarily has become one of investigators' favorite weapons to uncover possible lawbreaking, according to defense attorneys and current and former prosecutors who agreed to speak on condition of anonymity. "Taking a conversation offline provides evidence of intent, because if you're trying to cover your tracks, you probably know what you're doing is wrong," says Eugene Ingoglia, a former assistant U.S. attorney for the Southern District of New York who's a partner at law firm Morvillo.

Phrases such as "call my cell" and "let's go off e-mail" remain popular among people who plot insider trades or the rigging of markets. New expressions and acronyms pop up all the time, and authorities say they build lists of favored terms. Raj Rajaratnam, the fund manager convicted in 2011 of insider trading, would write "fon" instead of "phone." Prosecutors say they suspected the intentional misspelling was meant to evade the all-seeing electronic Javert of Control-F.

Investigators for the U.S. Securities and Exchange Commission and Department of Justice get so many e-mails, they can't possibly review them all without using Control-F, says Reed Brodsky, a partner at Gibson, Dunn & Crutcher who prosecuted Rajaratnam when he was with the U.S. Southern District. "They use terms to find evidence of whether someone is trying to hide their activities, because evidence of a coverup is frequently more potent than the evidence of the alleged crime," Brodsky says.

Simply highlighting suggestive phrases isn't enough, of course. In many instances, traders have an honest need to talk about complicated deals in person or over the phone. Homing in on a suggestion to go off e-mail is usually only the start. Authorities then have to go through hours of records in what one prosecutor called a laborious process to gather evidence that a crime was committed.

Sometimes, though, just taking a conversation offline can be enough to create a presumption of shady activity. In 2010, U.S. senators obtained internal e-mails in which bankers used the term LDL when sensitive topics arose. The revelations came during a push to ban the practice of federally insured banks trading for their own accounts and contributed to the inclusion of the Volcker Rule, which limits how banks wager their money, in the Dodd-Frank Act later that year. —*Keri Geiger and Sam Mamudi*

The bottom line Investigators looking for financial misdeeds are pressing Control-F to find evidence of illicit activity in e-mail.

Tweeted

"Hanging out in Ibiza with a bunch of friends and partying with famous people, able to do whatever I want, and I've never felt more isolated."

Markus Persson, who sold Minecraft to Microsoft for $2.5 billion last year. He later tweeted an apology "to people out there with real problems" for his "whining."

Energy

Argentina's Upside-Down Oil Policy

▶ The government keeps prices high to encourage domestic production

▶ "It is the most expensive oil in the world"

The price of oil plummeted to less than $39 a barrel last month in the U.S. In Argentina a barrel sells for almost twice that amount—because the government wants it that way. Argentina is home to the world's second-largest reserves of shale gas and fourth-largest of shale oil. Even so, in 2014 it had a trade deficit in energy, importing $6 billion more in natural gas and oil than it sent abroad. To encourage more domestic production, the government at the end of last year set a fixed price of $77 a barrel for oil sold for domestic use. In much of the developing world, governments subsidize fuel prices for consumers. In Argentina, motorists are subsidizing oil and gas producers. "This is not sustainable in the long term," says Agustin Torroba, senior analyst at Montamat & Associates, an energy consultant in Buenos Aires. "It is the most expensive oil in the world."

Argentina has long taxed oil exports, allowing companies to keep no more than $42 for each barrel sold abroad. (The limit was raised to $72 in 2013.) As world oil prices rose above $80 a barrel earlier this decade, drillers in Argentina responded by cutting back on investment in exploration and development, choosing to run down their existing reserves instead. With consumption rising and production falling, by 2011 Argentina had become a net importer of energy for the first time since 1984. President Cristina Fernández de Kirchner responded in April 2012 by expropriating the 51 percent of **Yacimientos Petrolíferos Fiscales** owned by **Repsol**, Spain's largest oil company, which she said was spending too much money paying dividends to shareholders and not enough on exploration. (The rest of YPF is publicly traded.)

Since the state takeover, the number of oil rigs operating in the country has doubled, to 94, according to oil service company Baker Hughes, with YPF accounting for 75 of them. Worldwide, the rig count has fallen 35 percent over the same period. YPF's crude output rose 4.7 percent during the 12 months ended June 30. ▶

$77

Price of a barrel of oil in Argentina

◀ Overall, Argentina produced 533,600 barrels a day in June, up 0.7 percent from June 2014.

YPF has accelerated development of shale gas and oil deposits in the part of Patagonia known as Vaca Muerta (“dead cow”). The size of Belgium, Vaca Muerta is considered one of the world’s richest shale deposits and key to restoring Argentina’s energy self-sufficiency. Yet YPF can’t do it alone: The government estimates it will take $200 billion to fully develop the region’s deposits, so it’s encouraging foreign investment. **Chevron**, the world’s third-largest oil company, took a stake in the region in 2013 shortly after Fernández decreed that companies willing to invest more than $1 billion would be allowed to sell 20 percent of their production abroad without taxes after five years. Similar incentives are in place for shale gas.

Chevron’s joint venture with YPF in Vaca Muerta is producing 43,000 barrels of oil a day, lifting Argentina into second place behind the U.S. in shale production. As petroleum companies around the world cut back, Chevron and YPF both say they have no plans to trim capital spending at Vaca Muerta. “We’re quite excited about that potential for that asset,” Jay Johnson, Chevron’s executive vice president for upstream, said on the company’s second-quarter conference call.

With world oil prices falling about 50 percent since June 2014, Argentine consumers are watching their neighbors enjoy a windfall that’s not available to them. Argentine motorists pay about 40 percent more to fill their tanks than drivers in Brazil. Yet consumers aren’t complaining, and energy policy isn’t a major issue in the upcoming presidential election. The economy is growing, unemployment is falling, and cheap public transportation is widely available. Even so, Montamat’s Torroba doesn’t see a long future for a program that subsidizes foreign companies and YPF’s shareholders. “The government will try to keep it until after the elections,” he says. “The government needs to show YPF is successful. And it’s doing so at the consumer’s expense.” *—Pablo Rosendo González*

The bottom line To erase its energy trade deficit—$6 billion in 2014—Argentina is keeping oil prices high to spur domestic investment.

Edited by Eric Gelman
Bloomberg.com

Bid/Ask

By Kyle Stock

$4.5b

Warren Buffett gets bullish on gasoline. Buffett’s Berkshire Hathaway discloses an 11 percent stake in Phillips 66. The investment makes Berkshire the refiner’s biggest shareholder again. (In early 2014 it owned nearly two-thirds of the company.) Refineries often thrive when oil prices swoon, because their costs go down. Phillips also deals in specialty chemicals and pipelines.

$6b

MBK Partners bids for Tesco’s South Korean business. The private equity group hopes to snap up about 900 stores owned by the giant U.K. grocer.

$1.4b

Ageas leaves Hong Kong. The Brussels-based underwriter is selling its life insurance unit in the country to JD Capital, an asset manager in Beijing.

$667m

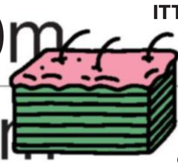
Carlyle buys Innovation Group. The deal gives the private equity behemoth a suite of software and services to help insurance companies process claims.

$435m

Ontario Teachers’ Pension Plan gets more real estate. BayBridge Seniors Housing, a unit of the pension fund, is buying Amica Mature Lifestyles.

$300m

ITT buys Wolverine Automotive. The acquisition adds a manufacturer of braking systems and sealing solutions to ITT’s growing collection of car parts makers.



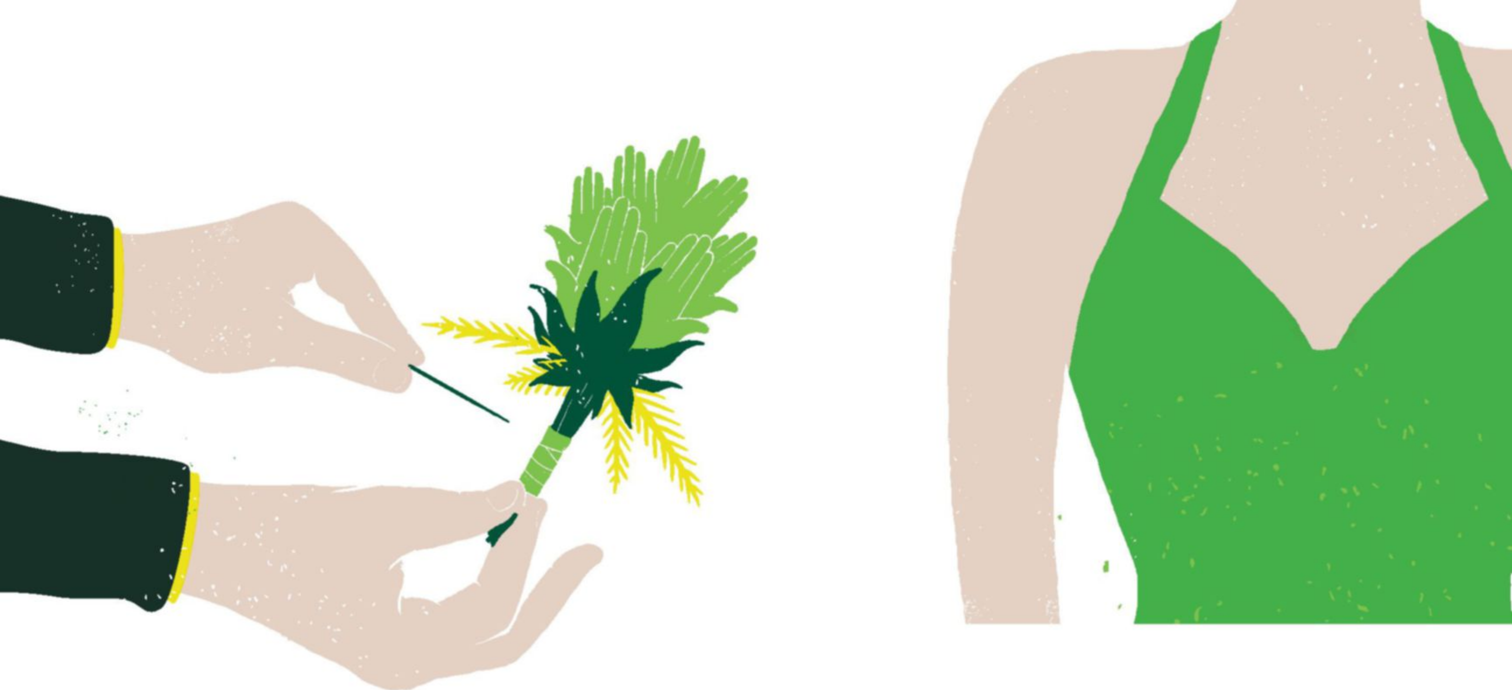
$229m

Amicus Therapeutics absorbs Scioderm. The biotech buys a startup that created a cream to treat epidermolysis bullosa, a rare, incurable skin disease.

$914k

A ballerina blockbuster on Broadway. Misty Copeland sent *On the Town*’s weekly ticket revenue up 131 percent when she took the lead for the show’s final performances.

BID/ASK ILLUSTRATIONS BY OSCAR BOLTON GREEN



Focus On/ Manufacturing

September 7 — September 13, 2015

Portuguese Shoemakers Get Fancy

▶ **Companies threatened by China bet on Italian-grade quality and speed**

▶ **"It's proof our strategy is the correct one"**

Alberto Sousa and his son, Filipe, are survivors. When their shoe factory northeast of Porto began losing clients to China a decade ago, the family-owned business revamped its strategy. "My father said to me, 'Our costs are higher, our team is better. We have to sell better shoes,'" recalls Filipe, who is general manager of **Alberto Sousa**. Rather than compete with Asia on price, the Sousas wooed high-end labels and launched their own line of leather shoes, Eureka. Today the 430-employee company is among the biggest in Portugal's shoe industry, producing 2,200 pairs daily and operating almost 30 stores. Revenue was €28 million ($32 million) in 2014; the company estimates it will bring in €31 million this year.

Despite Portugal's recent economic troubles, which forced its government to seek a €78 billion bailout in 2011 and implement harsh austerity measures, the Sousas and other shoemakers are thriving. The nation's roughly 1,500 shoe factories employ more than 37,000 people and last year exported 77 million pairs worth more than €1.8 billion, up 50 percent from 2009, according to the Portuguese Footwear, Components and Leather Goods Manufacturers' Association. The industry's evolution from low-end to high-end exporter is a "major success story for Portugal" and a bright spot amid the crisis, says José Neves, the Portuguese-born founder of **Farfetch**, a London-based fashion e-tailer that stocks products from hundreds of independent boutiques worldwide. Neves also founded a company that helps shoe designers find manufacturers in his native country.

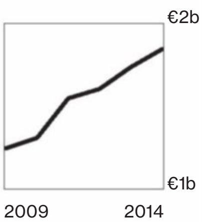
Portuguese shoes now command the world's second-highest average export price after Italy—almost $32, compared with about $4.50 for shoes made in China, according to the manufacturers' association. That's up from $21.38 in 2004. Leandro de Melo, managing director of the Portuguese Footwear Technology Centre, an industry- and government-funded organization that helps shoemakers upgrade their operations, points out that over the past decade, Portugal's production has increased at a faster pace than those of other European countries, while Italy's has declined. Hobbled by higher labor costs, Italy has concentrated more on finishing shoes they import instead ▶

ILLUSTRATIONS BY DANIEL JOÃO

of manufacturing them from scratch. "It's proof our strategy is the correct one," de Melo says.

The Portuguese shoemakers thriving today followed a strategy similar to the Sousas': They used profits reaped during the industry's Golden Age in the 1980s, when foreign companies flooded them with low-end work, to buy better machinery. Equipped with tools like precision, high-speed waterjet cutters, factories can profitably produce small batches of multiple styles for luxury designers. Thanks to such investments, Portugal's factories are more flexible than their Asian counterparts, and faster, says João Maia, executive director of the leather goods association. Craftsmanship is Italian-grade, says Neves of Farfetch, but costs are 20 percent to 30 percent less. "All the big luxury labels have some part of their shoe collections developed or produced in Portugal," he says.

Portuguese Shoe Exports



The world's biggest apparel retailer, **Inditex**, described Portugal as "a very significant" supplier in an e-mail, though it declined to disclose the percentage of footwear it buys from the country. Danish shoemaker **Ecco**, which operates factories and more than 3,000 retail outlets around the world, last year reopened its Portuguese plant, which it had closed in 2009. Ecco returned in part to take advantage of "some of the best shoemaking knowledge," spokeswoman Eva Kloch Norlyk wrote in an e-mail. Alberto Sousa's clients include Germany's **Birkenstock**, U.K. designer **Sophia Webster**, and **Hennes & Mauritz**'s upmarket label COS. Filipe Sousa says he has so many orders he's had to subcontract work to other factories to meet demand.

As orders begin flowing back to Portugal, the industry should take care not to neglect its own brands, says Vasco Sampaio, whose father started **Sozé** in 1976. The shoe manufacturer's house line, Dkode, supplies about half of the company's annual revenue. "It's so easy to put your own brand at the end of the line. And that is a big, big mistake," says Sampaio. "Nobody can think we'll have a rich country, a developed country, just working for others."

The industry has been buoyed by a proliferation of homegrown brands, with most fetching at least €100 per pair at retail. At his company's factory, Filipe Sousa shows off €140 leather boots from his Eureka brand, noting that margins on the six-year-old line are better than they are on contract orders. Eureka accounts for about one-third of the factory's output, he says, and will be half next year.

At 200-employee **Macosmi**, a Portuguese shoemaker that invested €2 million in a factory renovation that includes a vertical garden on a warehouse wall, commercial director Pedro Lopes says house brand Coque Terra already accounts for one-quarter of the company's business, even though it's just three years old. "Made in Portugal is selling," he says. —*Nick Leiber*

The bottom line Portugal's 1,500 shoe factories have increased the value of their exports by 50 percent since 2009.

Autos

Mexico Throws a Wrench Into Trade Talks

▶ **The nation is opposed to granting Japan concessions on autos**

▶ **Trying not to "allow Asian-Pacific car companies to game the system"**

When exhausted officials from the 12 countries negotiating the Trans-Pacific Partnership wrapped up a week of talks in Hawaii at the end of July without reaching a deal, Mexico's economy minister, Ildefonso Guajardo, brushed off efforts to pin the delay on him. "What you can accuse me of," he told the press with an amused smile, is advocating for "the interests of my country."

Guajardo is fighting to ensure that the TPP does not jeopardize gains his country has made under the North American Free Trade Agreement, which eliminated tariffs on goods shipped between Canada, Mexico, and the U.S. **Ford Motor**, **General Motors**, and Chrysler (now **Fiat Chrysler Automobiles**) all expanded production south of the Rio Grande after the deal took effect in 1994 to take advantage of duty-free access to the U.S. market and Mexico's low wages. European and Japanese manufacturers did the same. Last year, Mexico overtook Japan to become the second-largest exporter of vehicles to the U.S., behind Canada.

Clinching a deal on the TPP, a trade bloc that would stretch from Chile to Japan and cover 40 percent of the world's economic output, is a top priority for President Obama. To speed the talks along, Washington provisionally agreed that Japan's automakers should be allowed to ship vehicles to North America duty-free, even if a significant proportion of their content comes from non-TPP countries. (The U.S. levies a 2.5 percent duty on autos and 25 percent on light trucks from outside the Nafta area.) In the eyes of the Mexicans, that means "anyone who is willing, ready, and able to build pickups could become a challenge," says Guido Vildozo, an analyst with consultant IHS Automotive.

Technically, the tussle is over so-called rules of origin. Under Nafta, a vehicle must get 62.5 percent of its content from inside the free-trade area to qualify for duty-free treatment. Japan has been pressing for a lower threshold of 30 percent, as its automakers, including **Renault-Nissan** and **Toyota Motor**, get many of their components from China and Thailand, countries that aren't part of the TPP negotiations. Washington agreed to meet Tokyo somewhere in the middle in bilateral talks that preceded the larger meeting in July in Maui. The Mexicans, as well as the Canadians, weren't pleased.

Carmakers and others in the industry are taking sides on the issue. The Mexican Automotive Industry

DATA: APICCAPS

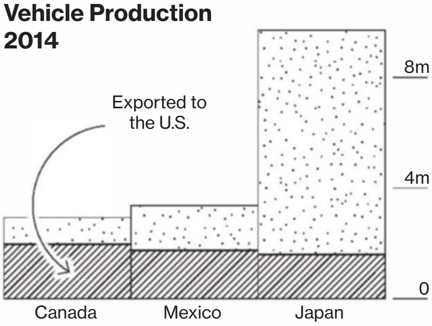
Association has said its members could live with a TPP regional content requirement of 50 percent. But parts suppliers from Mexico and Canada have urged officials from both countries to stand pat, saying in an Aug. 20 letter that caving in to Japan's demands would overturn "20 years of economic integration."

Autoworkers in all three Nafta countries also stand to lose if Japanese carmakers are allowed to substitute parts made in Thailand for those from Texas or Tamaulipas. "We need a fair standard that won't allow Asian-Pacific car companies to game the system," Dennis Williams, president of the United Automobile Workers union, wrote in an e-mail. "A low standard will lead to even more outsourcing to poor countries and fewer jobs in the United States." U.S. and Japanese automakers declined to comment.

Caught in the middle is U.S. Trade Representative Michael Froman, who's known Obama since their days together at Harvard Law School. Froman wants to wrap up the TPP in the coming weeks and cement the president's legacy of rebalancing U.S. foreign policy toward Asia. USTR spokesman Matthew McAlvanah says American negotiators have to find "the right balance between the needs of domestic auto producers, who have made clear that they rely on international supply chains to be able to produce in the U.S., and our desire to promote U.S. sourcing and American jobs."

Mexico's unlikely to let go of the issue. The country has a great deal invested in prolonging the status quo: One out of almost five vehicles built in North America last year was made in Mexico, double the proportion in 2005. IHS expects that to rise to 1 in 4 by 2020, as companies including **Volkswagen**, Ford, and Nissan add capacity in the country. Nations such as Vietnam and Malaysia hope to use the TPP as a springboard to become an export platform for autos, potentially diverting that new investment from Mexico. "The Mexicans know it's possible," says Vildozo of IHS, "because they did it."
—*Carter Dougherty, with Nacha Cattan*

Vehicle Production 2014



DATA: INTERNATIONAL ORGANIZATION OF MOTOR VEHICLE MANUFACTURERS

The bottom line Mexico fears that the Trans-Pacific Partnership may jeopardize its status as the No. 2 vehicle exporter to the U.S.

Policy

China Prods Industry To Make a Great Leap

▶ A new plan favors enterprises that are green and less labor-intensive

▶ "China needs to find a new wave of productivity improvements"

China's addiction to coal doesn't just foul its air. It pollutes the ground, too, because power plants often dump leftover ash in landfills. **Yulong Eco-Materials** has found a use for that plentiful waste. The company, based in the central Chinese province of Henan, uses the ash to make bricks. "The material is easy to get," says Sam Wu, chief financial officer of Yulong, which had sales of $44.5 million in the fiscal year ended June 2014.

Premier Li Keqiang wants more companies to address China's environmental problems and bolster the struggling manufacturing sector. In August, a closely watched gauge of factory output fell to its lowest level since 2009. The slump contributed to the collapse in share prices, with the Shanghai index down almost 39 percent from its high in mid-June.

In May, the State Council endorsed a 10-year manufacturing plan aimed at fostering innovation, promoting the creation of more local brands, and encouraging greener production. Headlined *Made in China 2025*, the blueprint identifies 10 strategic industries, including robotics, IT, aerospace, and new-energy vehicles. It also sets ambitious targets: Spending on research and development by Chinese manufacturers is to rise to 1.9 percent of revenue by 2025, up from 0.9 percent in 2013. The carbon dioxide intensity of industrial output must fall by 40 percent over the course of a decade. "Pollution control is now even more important than GDP growth," says Fielding Chen, a Bloomberg economist in Hong Kong. Politically sensitive issues such as smog "are the things that people care about."

The blueprint "is born out of necessity," says Karel Eloot, a senior partner at McKinsey in Shanghai. To remain competitive in manufacturing, "China needs to find a new wave of productivity improvements," he says. Low-wage, low-skilled labor fueled the first phase of China's industrial revolution, but workers are no longer as plentiful or cheap. Because of the success of the one-child policy, population growth has slowed dramatically and the workforce is shrinking. And so the industries named in *Made in China 2025* are less labor-intensive than those that powered almost two decades of double-digit export growth.

While the plan is short on specifics, policymakers will likely rely on a combination of regulations and incentives to achieve their goals. Makers of alternative-energy cars and buses already benefit from extensive government support. Sales of such vehicles soared more than fourfold last year, to 75,000, aided by consumer subsidies that knock 30 percent to 60 percent off the sticker price, according to data compiled by Bloomberg. Also, Beijing currently requires that electric vehicles make up about 30 percent of new ▶

purchases for official use in 88 cities.

Zhengzhou Yutong Bus, which in 2012 opened a plant dedicated to making electric buses, has received more than 3 billion yuan ($471 million) in government subsidies, according to its website. Of the 60,000 buses it sold last year, 10,000 were alternative-energy vehicles. Yutong Bus will register an almost 17 percent increase in profit this year, to 3.1 billion yuan, on sales of 27.6 billion yuan, according to forecasts by China International Capital, an investment bank. Even after the market rout, Yutong's shares are up 26 percent this year.

Five electric double-decker buses made by **BYD** will be in service in London by the end of the year. The Shenzhen-based manufacturer of rechargeable batteries and electric vehicles is part-owned by Warren Buffett's **Berkshire Hathaway**. Speaking to reporters on Aug. 27, BYD's chairman, Wang Chuanfu, said, "China has the highest sense of urgency" when it comes to electric vehicles.

Beijing is also using the tax code to promote greener manufacturing. In February, it introduced a 4 percent tax on industrial paints and coatings that contain high levels of volatile organic compounds, a source of air and water pollution. "There's a massive push to accelerate the conversion of the industry to using more waterborne paints," says Charles Shaver, chief executive officer of **Axalta Coating Systems**, a Philadelphia-based company that makes paints for General Motors, Ford, BMW, Volkswagen, and other automakers. The company opened a $50 million water-based facility in Shanghai last year and a $30 million R&D center in the city in April.

Despite the considerable resources at Beijing's disposal, the success of its latest manufacturing strategy isn't assured. Consider China's lack of success in fostering an indigenous semiconductors industry, an effort begun in the late 1980s. The nation has too many "inefficient plants" that wouldn't survive without government subsidies and cheap loans from state-owned banks, says Michael Murphy, managing director of consulting firm AlixPartners in Hong Kong.

Yulong Eco-Materials doesn't fall into that category. The company, which benefits from local government mandates that construction projects make use of recycled materials, is diversifying. In April, it opened a factory that can make bricks out of rubble from demolished buildings. "The concrete, the cement, the sand, the stone," says CFO Wu. "Everything." —*Bruce Einhorn, with Annie Lee*

"Pollution control is now even more important than GDP growth." Issues like smog "are the things that people care about."

The bottom line China's 10-year manufacturing blueprint sets some ambitious environmental targets but is short on specifics.

Technology

Intel Wants to Get Inside The Factory

▶ Chipmakers push to bring the Internet of Things to plants

▶ "It's moving beyond hype and into engineers rolling up their sleeves"

Makers of semiconductors spend upward of $5 billion to build and operate fabrication plants—known as "fabs"—that run 24 hours a day so they can recoup their investment before the equipment becomes obsolete in five years or so. Rows of pristine machines sit in windowless cleanrooms, which are almost as free of humans as they are of dust. **Intel** and **Texas Instruments** have spent decades perfecting this almost sci-fi form of manufacturing. Now they want to show the rest of the world how it's done.

The chipmakers have set their sights on what researcher IHS estimates is a $185 billion global market for gear to automate industrial production. To capture a portion of that spending, they're prodding companies to bring the Internet of Things—a term that describes a world in which physical objects are embedded with electronics and talk to each other—into factories. "It's moving beyond hype and into engineers rolling up their sleeves," says Doug Davis, senior vice president of the IoT division at Intel, which had more than $2 billion in sales last year. "The economic value and impact are unquestioned."

In the assembly line of tomorrow, industrial robots now caged off to prevent them from accidentally injuring human workers will move about more freely. A machine outfitted with optical and motion sensors would be able to detect a hand that is delivering a tray of parts and adjust its movements so as not to inflict damage.

Intel is also working on technology to make humans less error-prone. Last year it showed off an "intelligent" glove that uses chips to power a simple display on the wrist. If the person wearing the glove completes an assembly task correctly, a large green check mark appears. If not, a red cross flashes on the screen. Conceived by **Workaround**, a German startup founded by ex-BMW employees, the glove could become a useful accessory at auto plants or electronics factories.

Autonomous robots and bionic line workers are still years if not decades away. Ethernet connections are only just making their way onto factory floors, while Wi-Fi hardly has made a dent, which means most plants don't have a communications platform to support an Internet of Things. This is partly by design: Hackers can't penetrate systems that aren't connected to the outside. "The best way to protect your system is to disconnect it from the rest of the world," says Avner Goren, who heads embedded processing for Texas Instruments. His unit contributed a fifth of the company's $13 billion in revenue last year. "The idea of IoT is to connect it to the rest of the world."

To allay companies' security concerns, Goren is pushing the ▶

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◀ deployment of multiple networks. That way a wireless link that transmits information on the internal workings of a machine can't be hijacked to take control of the machine itself. That's pretty much what happened in a staged hack of a Jeep Cherokee in July.

Intel says it's already demonstrated the benefits of the Internet of Things at one of its own plants. At a facility whose location the company declined to name, a combination of sensors and software correctly identified that vacuum pumps used in the manufacture of silicon wafers were about to fail. What tipped them off? Irregularities in the pumps' normal pattern of vibrations.

Selling factory owners on the use of electronics for discrete functions, such as maintenance, will be easier than persuading them to overhaul their entire setup so that every piece of equipment is churning out a stream of data that can be parsed by computers. Some see a day when factories will be able to talk directly to warehouses, which will be in communication with stores, which will allow companies to tailor production more carefully to demand. "The big goal of smart manufacturing is to network the entire supply chain," says Mark Watson, an analyst for IHS. "That is a fair way off." —*Ian King*

The bottom line Intel and Texas Instruments are angling for a piece of the $185 billion market for industrial automation gear.

Currencies

The U.S. Dollar Is Stronger Than Steel

▶ The U.S. industry is battling a tide of cheap imports

▶ "Our laws have not caught up to the 21st century"

When John Pierpont Morgan bought Andrew Carnegie's steel business and combined it with two competitors to create **U.S. Steel** in 1901, the result was the world's first billion-dollar corporation. Its roughly $1.4 billion market value would translate into about $33 billion in current dollars. But the company is worth less than a tenth of that today, at just under $2.5 billion.

While the steel industry has been fading in the U.S. for decades, things have gotten worse recently. A strong U.S. dollar, combined with a slowing Chinese economy, is bringing unprecedented amounts of cheap, foreign steel to the U.S., swamping domestic producers. Average monthly imports spiked by almost 1 million metric tons in 2014, a 38 percent increase from 2013. Through June of this year, steel imports averaged 3.3 million metric tons a month, roughly the same as last year. A lot of that is coming from China, the world's largest producer. Although its economy has cooled, leading to the first dip in steel demand there in a generation, China's mills have kept chugging along. Much of the excess output is being shipped overseas. In the first half of this year, China's steel exports rose 28 percent compared with the same period in 2014.

The recent devaluation of the yuan could make Chinese steel even more attractive to U.S. buyers. Exports from Brazil and Russia have also jumped as the real and ruble have fallen sharply against the greenback.

U.S. producers have had no choice but to pull back. Andrew Lane, an analyst at Morningstar, expects U.S. steel production to come in at around 85 million metric tons this year, down from 98 million in 2007. "I don't think we'll get back to that level until 2020," Lane says.

Things are particularly hard for U.S. Steel, the country's No. 2 producer after **Nucor**. The company lost money in the first two quarters of this year and has laid off more than 1,700 employees, shaving its total

38%

Rise in U.S. steel imports in 2014

workforce to 34,000. "The strong dollar is the icing on the cake," says Mario Longhi, U.S. Steel's Brazilian-born chief executive officer. Longhi says foreign producers have been unfairly dumping steel in the U.S. for several years, and trade laws need to be revamped to deal with the problem. "Our laws have not caught up to the 21st century," he says.

Since June, U.S. steel producers have filed three trade cases with the Department of Commerce, alleging that countries including Brazil, China, Japan, and South Korea are either benefiting from government subsidies or selling steel abroad for cheaper than they do at home, in violation of international trade laws.

Although a strong dollar is particularly bad for companies at the beginning of the supply chain, such as steel producers, it's weighing on the entire U.S. industrial sector. After growing faster than the rest of the economy during the early years of the recovery, manufacturing activity, as measured by the ISM Manufacturing Index, dropped to its lowest level in two years in August. Manufacturing is on pace to post a record trade deficit for the third straight year. That's dampened some of the enthusiasm around the "reshoring" trend of companies bringing outsourced factory jobs back to the U.S. Rising wages in China have helped make U.S. workers more competitive. But a stronger dollar, coupled with a slowing China, could blunt those gains, says Harry Moser, founder of the Reshoring Initiative, a group of companies and trade associations bringing manufacturing jobs back to the U.S. "That's my biggest concern." —*Matthew Philips*

The bottom line American steelmakers have filed trade cases alleging foreign rivals are dumping in the U.S.

Edited by Cristina Lindblad
Bloomberg.com

Photo courtesy Craig Technologies

Making Moves

Together, Florida and Craig Technologies Are Retooling American Manufacturing

"We've been able to tap Florida's high-tech supplier network for our manufacturing operations with ease, giving us an edge in passing along cost savings to our customers."

Carol Craig
CEO and Founder, Craig Technologies

If you need proof that domestic manufacturing is making a major comeback, look no further than Craig Technologies. Led by CEO and founder Carol Craig, the engineering contractor has experienced exponential growth, expanding from a one-woman consulting firm to a 400-employee national enterprise in 16 years. Craig's latest expansion, the Aerospace and Defense Manufacturing Center (ADMC), is growing at a similarly rapid pace: the advanced manufacturer has seen a 700 percent increase in both revenue and employees in just the last year and a half. For Craig, the secret to success was directly tied to finding the right location—one that delivered high-tech talent, a robust supply chain and a solid customer base: Florida.

Craig Technologies quickly found the cutting-edge talent needed to run the new 161,000-square-foot ADMC in Florida's high-tech *Space Coast* workforce, which includes former NASA employees and graduates from industry-focused universities like Embry-Riddle Aeronautical University. Surrounded by other major defense contractors like Northrop Grumman, Rockwell Collins and Harris Corporation, Craig Technologies also benefits from an extensive in-state supply chain. From precision machines to hard-to-find parts, nearly everything can be sourced locally, saving time and money for the company and its clients. The company's strategic location also places it at the mouth of its largest client base: the military. With 20 major military installations, including three unified combatant commands in the state, Craig Technologies has no shortage of customers seeking end-to-end solutions for tomorrow's defense challenges.

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Past Trump Tower's bow-tied doorman, through a shiny revolving door, toward the 60-foot waterfall, up a dim elevator, after glass doors and smiling assistants, Donald J. Trump, chairman of the Trump Organization, sits with pictures of himself to his left, to his right, in front of, and behind him. A gun he got at an awards dinner this year in Charleston, S.C., is mounted above his desk.¶

Trump is three days away from his first debate with the nine other Republican presidential candidates who made the cut, the ones he's pulverizing in polls. He's taking a break from a campaign that, though he has no experience in government, has him zooming toward the White House. We're talking business rather than politics—after all, that's his central qualification for the job he's seeking.¶

When Trump is asked to name a leader he looks to for advice on managing his company, his mouth, just as acrobatic as his more famous hair, pulls tight, snaps open, and lets out its most important syllable.

"Me,"

Trump says.

"Mirror," says one of the two deputies in the room. "The mirror."

"I look at me," says Trump.

Does he admire any other business leaders?

"I," Trump says, "don't like the word *admire*."

So What Does Trump *Do,* Exactly?

By
Max Abelson

Photograph by
Evan Ortiz

Trump isn't exactly self-made—he inherited substantial wealth from his father—but he is definitely self-invented.

There's no model in the political world for how he transformed himself into a campaign megastar without preparation, politeness, policy, or public service. To wander around inside Trump's kingdom with his deputies, children, lenders, and former executives is to find a New York real estate mogul who stopped building Manhattan real estate and a global hotelier who doesn't own most of his foreign hotels. Long before he was ignoring basic political rules, he was sailing far beyond the limits of his industry, steering an empire that's as similar to most corporations as his run is to most presidential campaigns. In the same way that his campaign is post-politics, his company is post-business.

Trump is selling himself to America as the king of builders, a flawless dealmaker, and masterful manager. But he isn't really any of those things. Trump has built few skyscrapers this century, stumbling twice when he's tried, and struggled with an array of other projects. Meanwhile, his corporate leadership is a kind of teenager's fantasy of adult office power. From his Trump Tower desk in Midtown Manhattan he controls the teensiest details, rejects hierarchy, and picks top deputies by following his own recipe for promotion.

None of those things means he's a sham. The story of how he came to be what he is now—above all else a landlord and a golf bigwig—is even weirder than his charge to the White House. Trump rose in the glitzy 1980s on borrowed money, survived early 1990s disasters that nearly brought him down, then transformed himself and his business. His organization is still successful, just not in the way he's claimed.

"We evolve very much in this company," Trump says. "See that? I'm just looking while I'm talking to you. See that record?" There's a plaque across from his desk. "That's a platinum, that was sent. Mac Miller, did you ever hear of Mac Miller? He's a rapper. He did a song called *Donald Trump*—100 million hits!" He takes a breath and goes back to his company. "I tell you what," he says a few minutes later. "Someday before I kick the bucket, somebody is going to get what a great business I built. People don't know."

Four days later, the morning after the debate, Matthew Calamari's eyes are misting. Trump's chief operating officer has the mustache and bulk of a late-1970s linebacker because he was one in college. That was before he tackled hecklers at a 1981 US Open women's semifinal, won the attention of a young real estate star who happened to be there, got hired as his bodyguard, and rose to become one of his top executives.

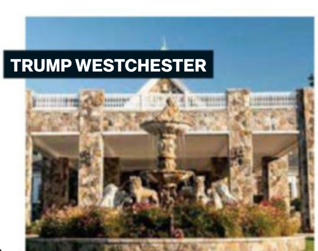
"I love the guy," Calamari says. "My thing is, I've always promised I would, knock on wood, never let anything happen to him." His voice wobbles. Lately, if you catch the right Trump speech and look carefully, you see Calamari. He likes to watch over his boss on the trail. "I just enjoy it. It's not the money. I enjoy working for the man."

A commemorative Secret Service knife keeps him company in his office, along with a poster of Tony Soprano, snapshots of his Shih Tzus, and a photo his brother took of the moment his knee was wrecked in a game. "You know what?" Calamari says. "If I would have made it in football, I would not be working for Donald Trump."

Calamari gets up from his chair to show how he escorted his boss in the early days, just behind and slightly to the side. "Being able to walk with him to these other job sites, I saw his eye for detail," he says. Calamari tried to emulate Trump when he hired other security guards. Besides security, Calamari's responsibilities now include building management, construction, and insurance. "He promotes you until you fail," he says. "There are no boundaries."

Calamari won his job when the hecklers interrupted Martina Navratilova and Chris Evert. "I took one guy immediately right down," he says. Then someone else started getting rude. "I ran right at him, I picked him up, I slammed him to the ground, I carried him down," he says. He remembers Trump's wife at the time, Ivana, asking for his name on her husband's behalf. Navratilova won.

Calamari isn't the only bodyguard Trump has promoted. The man who manages his Las Vegas hotel "used to drive us to school every day," middle son Eric Trump says. "If you go down to Wall Street, that's not happening." Eric, like his sister Ivanka and their brother Donald Jr., is a senior executive at the company. Allen Weisselberg, who grew up in Brownsville, worked as an accountant for Trump's dad before joining the son, and hasn't shaken his terrific Brooklyn honk, is now his chief financial officer. Amanda Miller, who was a teenage waitress when Trump spotted her at his Westchester club, is his head of golf marketing.


TRUMP WESTCHESTER

"I like taking people that I know," Trump says. "They don't have drug problems, they don't have alcohol problems. They're family. I would rather take guys at a lower level and move them up than hire people that you have no idea who they are."

Trump's empire is almost moving if you spend time with the deputies who admire him, alarming if you focus on its messier deals, and astounding if you remember how close it came to ruin. If you're Donald Trump, it's totally underrated.

It's not a gargantuan company. The $605 million revenue that Weisselberg says it took in last year (though the months shift depending on the business line) makes it, for purposes of comparison, roughly the size of a company called NN, based in Johnson City, Tenn., which produces tiny steel balls.

The $605 million is almost double the revenue he reported in his financial disclosure for candidates, which Weisselberg says was bogged down by federal rules on what they could include. The profit on that revenue was somewhere between $275 million and $325 million, the CFO says.

That margin is extraordinary. Weisselberg points out that Trump's licensing businesses, even if they're smaller than his real estate and golf portfolios, are essentially all profit and help make the margin so wide. Trump squeezed about 13 times more profit than the Tennessee company got from the same revenue.

Trump is about to describe the most profitable parts of his business when Michael Cohen walks into the office.

"What do you have, Mike?" Trump says. Cohen, an executive vice president and special counsel to Trump, became famous a week earlier. He said he would do something "disgusting" to a *Daily Beast* reporter if the website published Ivana Trump's accusation in a deposition that Trump had violated her in 1989, when they were married. Cohen added that a wife can't be raped by her husband, legally speaking, which isn't true. (Ivana has said the story was "without merit.")

Cohen is upbeat, naming a television anchor who just called.

"His comments to me just now on the phone—" Cohen says.

"He can't believe it, right?" Trump interrupts. "Because he saw the new polls?"

"He actually thinks you really could be the nominee. He said, 'If you asked me the same question six weeks'—I'm sorry to interrupt—'if you would have said this to me six, seven weeks ago,'" Cohen says. "He goes, 'If Donald wants to come on,

CLOCKWISE FROM TOP RIGHT: DON RIDDLE IMAGES/HYATT HOTELS; MARK LENNIHAN/AP PHOTO; JOHN GREIM/GETTY IMAGES; GETTY IMAGES; TED THAI/THE LIFE PICTURE COLLECTION/GETTY IMAGESKAREN BLEIER/AFP/GETTY IMAGES; COURTESY TRUMP

love to have him.' They're running 24/7 on just the debate."

"I'll talk to him," Trump says. He corrects himself. "I'll see if I can talk to him."

The two other deputies in the room are sitting quietly on either side of me as we face their boss. On my left is Chief Legal Officer Jason Greenblatt. Trump tells me he's there "not to sue you, just because he knows a lot about the company." Weisselberg is on the right.

When Cohen leaves, the boss turns his attention back to the lucrative parts of his company. Or, rather, to parts that might be more lucrative should he decide to unlock the riches therein. "I think one of the things you have to think of is that the golf land is not just golf land; it's land that if I want I can close up and build into thousands and thousands of units. And not one person has ever mentioned it." He moves on to something else. "Let me just show you these real fast," he says, picking up plans for his renovation of the Old Post Office Pavilion, soon to be Trump International Hotel, Washington, D.C.

TRUMP WASHINGTON

The city he'd like to make his home comes up again when he describes some of those golf courses, one outside Washington and another in New Jersey. "Bedminster, in New Jersey, which is amazing, which you have to go see," he says. "Have you been there? Have you seen it?"

Weisselberg, the CFO, is wearing a golf shirt when I meet him in his office four days later for a trip to New Jersey. We head downstairs and out a Trump Tower side door, driving uptown before turning west at Central Park, where Trump's New York rise was boosted by his quick renovation of the city's long-suffering Wollman ice rink in the 1980s.

By then, Trump had already emerged in Manhattan as a fully formed version of himself. When barely 30 he was being chauffeured around town in a Cadillac with his initials on the license plate, and newspapers were noting his dazzling grin and model companions. By the end of the 1970s he had brought his father's outer-borough apartment company into Manhattan, transforming the Commodore Hotel on grimy 42nd Street into what would become the glassy Grand Hyatt New York. He had political connections helping him nab a new kind of tax deal to save him millions of dollars. He fought the government when the U.S. Department of Justice sued his family company for discriminating against black tenants in Brooklyn and Queens, a case he eventually settled.

WOLLMAN RINK

GRAND HYATT NEW YORK

Trump's ego has its own origin story. On a cold November afternoon in 1964, the year he graduated from the New York Military Academy, he went with his dad, Fred, to watch the opening of the Verrazano-Narrows Bridge. He saw, he said later, its 85-year-old designer standing like a sap, with his name unspoken at the ceremony. "I realized then and there something I would never forget," he told the *New York Times* in 1980. "I don't want to be made anybody's sucker." It didn't matter that the master of ceremonies, Robert Moses, had introduced the designer as "one of the significant great men of our time," or that the man, Othmar Ammann, was applauded by 1,000 guests. Moses hadn't remembered his name.

"Everybody thought Donald was just this brash young kid who was going to ride along on his father's money," says Louise Sunshine, one of his first deputies. "And I just thought, Oh boy. This was my opportunity in life." Sunshine was also a top fundraiser for Governor Hugh Carey, an early connection to the officials who bestowed tax deals and zoning changes.

Despite saying he'd give them to the Metropolitan Museum of Art, Trump got rid of some of the old Bonwit Teller building's limestone reliefs when he demolished it to make way for Trump Tower. "When I knew Donald, he lived half in the Trump world and half in the real world," Sunshine says.

"The only thing that makes Donald different today from the Donald that I knew is that I think he listened more in those days."

The 1980s was a steroidal decade. Trump bought an airline, a vast Palm Beach estate called Mar-a-Lago, and a yacht so big it inspired a song by the band Queen. He proposed the world's tallest building and was considered for a job to build a City of God for Hare Krishnas in New Jersey, according to a news report at the time. He became an Atlantic City tycoon instead, calling his Trump Taj Mahal the world's most expensive casino ever built. He took over a pair of buildings on Central Park South, renamed them Trump Parc and Trump Parc East, and offered to house homeless people in one of them to pressure rent-controlled tenants to leave.

TRUMP PARC

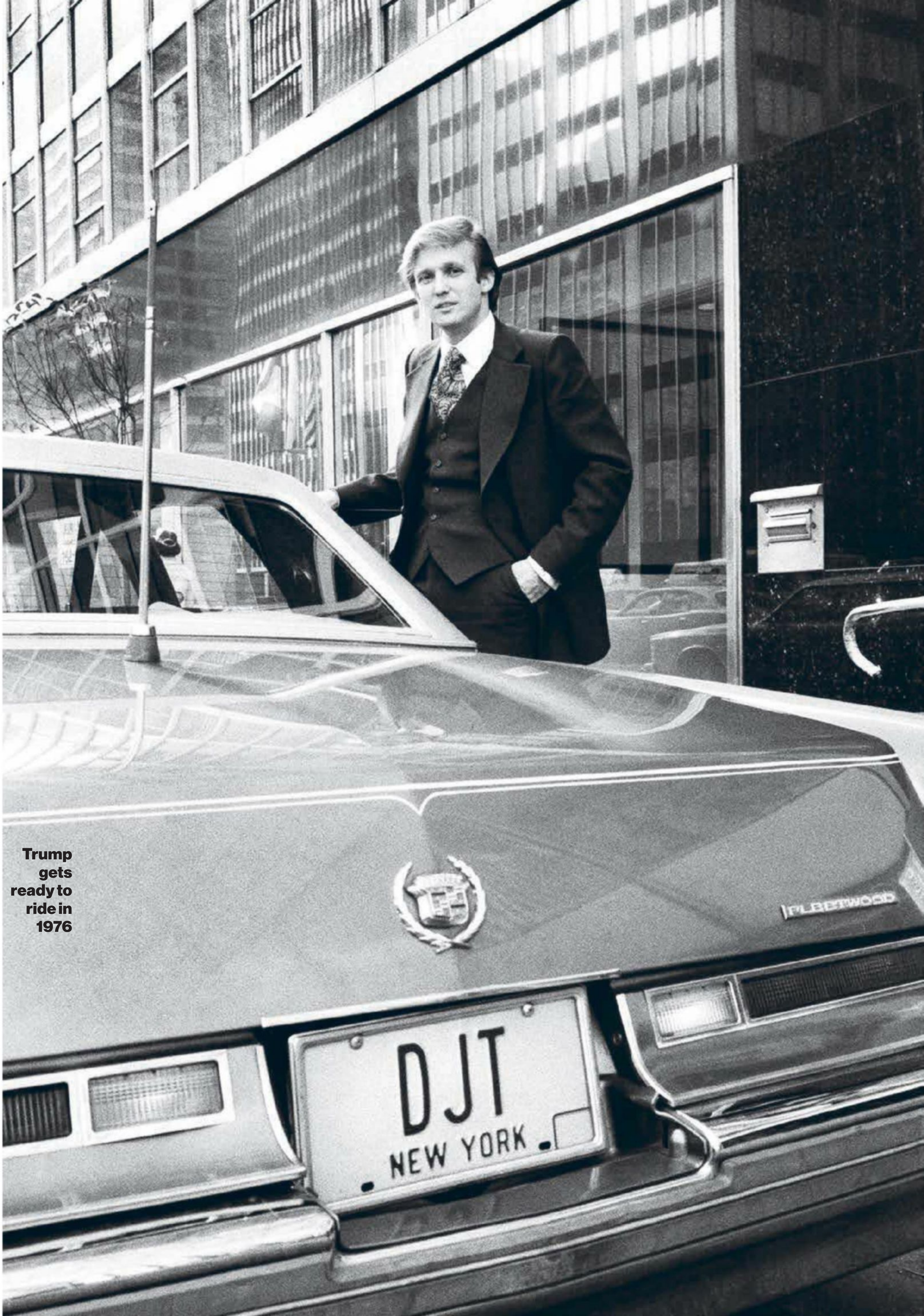
Weisselberg and I drive by those buildings, and by the Plaza Hotel, which he bought near the end of that decade for about $400 million—borrowing every dollar. Citigroup and other banks loaned him more than the hotel actually cost, throwing in money for renovations, and Trump had to personally guarantee more than $100 million of it. He said he'd give Ivana $1 and all the dresses she wanted to run the hotel.

That kind of debt exposure wasn't rare. He borrowed so much that he ended up guaranteeing, altogether, close to $1 billion, which meant that the banks could have ruined him if something went wrong. Before his run ended, he opened the Taj Mahal in 1990 with a giant genie named Fabu declaring Trump its master and a green laser shooting out to cut the building's red ribbon. It beat the Verrazano's opening ceremony. The curtain came down on that era of Trump a year later when the Taj went bankrupt.

TRUMP TAJ MAHAL

Before this year's presidential race, the grandest triumph Trump had managed was staying on his feet during his 1990s disaster as the economy fell out from under him. He lost the Plaza, the yacht, and the airline, and the casinos filed for bankruptcy—but he himself didn't, as he reminds his crowds on the campaign trail. In *Trump: The Art of the Comeback*, a book with two chapters on his prenuptial agreements and one on his collapse, he chalks up his survival to the timing of his

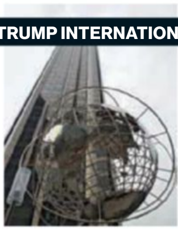
MAR-A-LAGO CLUB



Trump gets ready to ride in 1976

debt negotiation, playing hardball with his lenders, and teaching one holdout banker a better golf grip.

What saved him is that those bankers believed he was worth more to them above water than under it. He fought to buy time until the real estate market could rebound. By 1995, with some but not all of his debt wiped out and a pair of big projects that would use his name under way, limousine mogul Bill Fugazy handed him a boomerang encased in glass at a lunch marking his comeback.


TRUMP INTERNATIONAL

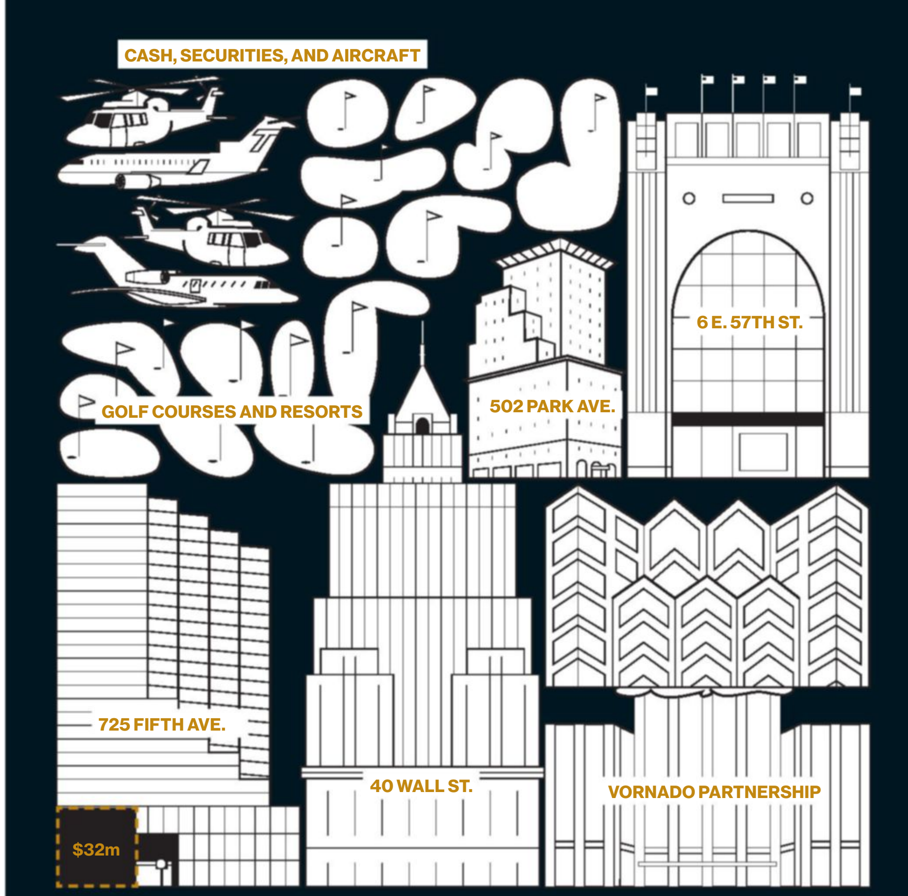
A new empire rose out of the wreckage of the first. The reimagined Trump relied more on partners than on personally guaranteed debt, at least most of the time. His name on a building didn't necessarily mean that he owned or built it. When our car gets to Columbus Circle, we pass the skyscraper that was remade in 1997 from the Gulf + Western Building into Trump International Hotel & Tower. General Electric put up the money to transform it, but the GE International Hotel & Tower probably wouldn't have attracted as many guests. A year later, on the other end of Central Park South, even though Trump put in only $11 million to buy the General Motors Building with insurer Conseco, his name went up in 4-foot letters on the white-marble tower. They were taken down overnight and the building was sold off after Conseco's fall a half-decade later.


GM BUILDING

"I think that a healthy bit of fear got into him, and that was good," says Brian Harris, whose company Ladder Capital is Trump's biggest lender, according to his campaign filings. "Like a lot of very heavy hitters, they get older, they get a little more conservative, they start thinking about the kids."

New York disappears, New Jersey highways ooze by, and after an hour's drive from Midtown Manhattan we pull into the Trump National Golf Club in Bedminster. It's a monument to the Trump style. At the front of the clubhouse is a fountain with lions around a pedestal below a pool, then more lions up above, another pool, even more lions, and a third pool, topped by a statue of a woman, high above our heads, holding buckets. She towers over a Lamborghini, a Maserati, a Mercedes, and a Bentley, keeping watch. Merely nice cars park elsewhere.


TRUMP BEDMINSTER



TRUMP'S $3.22 BILLION* IN ASSETS

DATA: BLOOMBERG BILLIONAIRES INDEX
*TRUMP SAID THIS YEAR HE'S WORTH IN EXCESS OF $10 BILLION

Stepping into the Trump world is like taking a long soak, or huffing new car smell, or doing both at the same time. We start in the main clubhouse, beneath chandeliers chosen by Trump. Mark Sanchez lived in a villa by the swimming pool when he was a New York Jets quarterback. A couple of his more prominent peers have reserved spaces near Trump's in the glistening men's locker room, where salves and lotions are lined up as far as the eye can see. A framed *TV Guide* list of catchphrases hangs by the door, with "You're fired!" from his show *The Apprentice* highlighted in yellow, near gigantic urns also picked out by Trump.

The Trump Organization is not the kind of place where employees can always tell you what colleagues are working on or what their titles are. What they agree on is Trump's immersion in the minutest of details, from the fountain and urns to the marble of lobby floors.

"Not in a compulsive way, or sick way, but in a caring way," says David Schutzenhofer, Bedminster's manager. When asked about it, Trump says he pays attention to details, even though he has good managers who should be able to handle them. It's hard to imagine how Trump's management style would or could translate to government, where hierarchies are impenetrable, micromanagement ineffective, and expensive urns susceptible to congressional scrutiny.

Bedminster has 400 members, and new ones are expected to fork over $150,000 to join on top of $24,000 a year. It's a dreamy place, except when a player who's facing us on one of the two golf courses a few yards away swings hard at a ball. It dribbles forward a few inches.

"We could have been killed," Schutzenhofer says.

"That," Weisselberg says, "was a terrible shot."

We turn a corner and come to a spot overlooking the first hole of the club's new course. Trump has suggested this could be his final resting place, with space for 548 more graves nearby.

"It's funny, because when we bring it up to members, their initial reaction is they question it," Schutzenhofer says. "But then when you ask them, 'Where would you like to be buried?' they kind of get it."

Trump was connected to the land even before he bought the course. When gull-wing car magnate John

CLOCKWISE FROM LEFT: CHESTER HIGGINS JR./NY TIMES/REDUX; ALEXANDRA SCHULER/DPA/AP PHOTO; CRAIG WARGA/NY DAILY NEWS; COURTESY TRUMP

TRUMP EXTENSIONS, PAST AND PRESENT

TRUMP HOME SOFA
$12,100*

SUCCESS COLOGNE
$20.96

TRUMP HOME SERTA DONATO SUPER PILLOW TOP
$1,549

DONALD TRUMP MEN'S BOXER SHORTS
$12.60

EMPIRE COLOGNE
$62

DT 81 GLASSES
$93.90

DONALD TRUMP MEN'S TIE CLIP
$21.99

TRUMP VODKA
$39.99

TRUMP HOME ROCHELLE 12 LIGHT CHANDELIER
$1,800

DONALD TRUMP MEN'S TWO BUTTON SIDE VENT SUIT
$279.99

MEN'S DRESS SHIRT
$32.99

DONALD TRUMP MEN'S RECTANGLE CUFFLINKS WITH CRYSTALS
$34.99

DONALD TRUMP MEN'S CIRCLE CUFFLINKS
$29.99

DONALD TRUMP SIGNATURE COLLECTION NECK TIES
$59.50

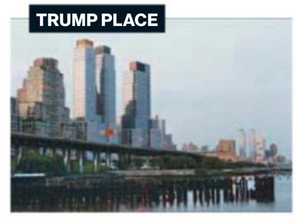
*PRICES MAY VARY

TRUMP PUERTO RICO

DeLorean was going bankrupt in 1999, he announced plans to turn his estate into two golf courses, saying he could pull off a Trump-like comeback. He couldn't; Trump himself bought it three years later. Trump's website now lists a dozen U.S. clubs, two in Scotland, one in Ireland, and a licensed course planned for Dubai, leaving out the licensed Trump golf course in Puerto Rico that went bankrupt in July.

Schutzenhofer expects his club to make a $5 million profit this year. It will host the PGA Championship in 2022.

When we're driving home, New York rises across the Hudson River in the afternoon sun. Manhattan's skyline grows taller and ganglier by the day. Trump Tower has been dwarfed by a new generation of skyscrapers sprouting around it, skinny and strange.



TRUMP PLACE

Trump once wanted to be the biggest. Halfway through his 1980s climb, he tried to build the world's tallest tower, a 150-story skyscraper on an East River landfill. A year later he zoomed across town, proposing to go just as high on the long stretch he controlled along the Hudson. Instead, after his 1990s fall, he sold 70 percent of the project, called Trump Place, to Hong Kong investors. A decade later, with only some of the towers up, they sold off the whole thing, including his stake, without his approval. He sued. Peace came when the Hong Kong investors used the money from that sale to buy two towers in New York and San Francisco, and then sold their 70 percent chunk to Vornado Realty Trust, a more acceptable partner for Trump.

That's how he ended up with about a third of two huge Vornado office towers. He didn't get to build higher than everyone else, he gave up control of his West Side dreamland, and sued over its sale, but ended up with a stake that the Bloomberg Billionaires Index estimates is worth $640 million, his most valuable holding. (Trump says it's worth even more.) And it's just one part of the real estate portfolio he owns that Weisselberg says is Trump's biggest business, along with office building 40 Wall Street, Trump Tower, the NikeTown store connected to it, and shiny resorts. One of them is Trump National Doral

VORNADO PARTNERSHIP

40 WALL ST.

Miami, where the spa menu includes a 35-minute beard shave, an 80-minute hydrating cocoon, a 100-minute antigravity face-lift, and a two-hour foot and hand treatment with salt exfoliation.

TRUMP DORAL

Landlords—and Trump is a major one—have a very good business. But builders capture the city's imagination because they move brick, soil, money, government, and men. And only losers give up when they try and fail twice to put up the world's tallest skyscraper. In 2001, before construction began on Trump International Hotel & Tower Chicago, he said he'd love to make it the tallest building ever. It ended up as that city's second-highest, after Willis Tower, and in a flashback to his old ways he personally guaranteed $40 million on a Deutsche Bank construction loan to build it. It was still going up when the 2008 financial crisis struck. With sales slow and the German bank asking for its money, Trump claimed that the credit crunch was the kind of random catastrophe that allowed him to delay. They sued each other and announced a year later they would settle privately.

TRUMP LAS VEGAS

He built one other skyscraper with a big investment of his own in the past decade, and it suffered the same bad timing. His partner at Trump International Hotel Las Vegas, fellow billionaire Phil Ruffin, tells me they would have made a fortune if the economy hadn't crashed as they opened in 2008. For now, Ruffin says, they still owe about $12 million out of the $560 million they borrowed.

Trump, such a proud erector of towers that he once promised to put up "the stiffest building in the city," hasn't built his own skyscraper since.

"Here's the thing," he says in his office. "What I'm doing now—I've been building all my life. I built a lot of buildings." His voice hushes, serious and nostalgic, and he ticks through Trump Tower, the Trump Palace condos on Third

Avenue, the Trump World Tower across from the United Nations, and Trump Park Avenue, which he converted from the Hotel Delmonico into apartments. "All over the city I built."

Trump didn't leave Atlantic City after his ugly fall. He doubled down, winning control of his casinos from his lenders, opening another, and turning down at least one offer to sell. He even said he'd build the world's biggest yacht, a few yards longer than the royal *Britannia*, and dock it by the Trump Castle casino. "I've always wanted a boat bigger than the queen's," he said. Atlantic City continued its slide, and Trump didn't leave until more than a decade later, though his name stayed on his old casinos even after he gave them up. He said last year he's thinking about buying back in.

TRUMP ATLANTIC CITY

In 2005 he became an education entrepreneur, founding Trump University. "The problem with school is that school is a little academic," said Roger Schank, its chief learning officer, when the online program started. Trump U gave out no degrees, wasn't accredited, changed its name to the Trump Entrepreneur Initiative, and was sued by New York's attorney general for cheating students. Trump denied the allegations and countersued.

The parts of his company that slap his name on other people's things help explain how Trump can make all that profit from such a modest amount of revenue. Trump can earn millions of dollars when he licenses out his five sparkling letters, that unbeatable verb, to new towers in the Philippines, Panama, India, Uruguay, Brazil, Canada, and the U.S., too. And he doesn't have to worry about spending money on stuff like concrete.

"It's not conventional, traditional real estate, but it's real estate," says Richard LeFrak, another billionaire son of an outer-borough New York developer. "I mean, if you think about it, his brand is his real estate."

A year after the university opened, he launched Trump Mortgage with a press release, saying in all-caps it would put the "SUIT AND TIE BACK IN THE MORTGAGE BUSINESS." His CEO's work experience, posted on the company's website, turned out to be embellished, and within a year the company shut down.

Trump began endorsing a multilevel-marketing firm called ACN around that time. **"Hey, if you want a nice, easy, OK life, you can be in the pack…but if you really want to do something, you do have to get out of the pack,"** he said in a promotional video. "We do a lot of research on companies before we agree to do something like I'm doing for you, and ACN's a great company." ACN, which charges new members $499 to join a system that rewards them for selling digital phone service and natural gas, was featured on 2009 and 2011 episodes of *The Celebrity Apprentice*, where contestants promoted a video phone. In between, Montana's securities commissioner accused ACN of running a pyramid scheme, dropping a cease-and-desist order when the company agreed to better training programs. Trump got $1.35 million for three recent speeches to the company.

Trump, a teetotaler, launched his liquor the same year as his university. The spirit, which was billed as the World's Finest Super Premium Vodka, lasted until at least 2008. A phone number for the company that made it, Drinks Americas Holdings, leads to the answering machine for a hair design studio.

There's also Trump tea, a Trump energy drink for the Israeli and Palestinian markets, Trump coffee, and Trump colognes called Success and Empire. And those are only the liquids.

He found more success with NBC's *The Apprentice*, which his campaign says made him more than $200 million over 14 seasons. He also rolled out Trump-brand menswear sold at Macy's and Serta's Trump Home® iSeries® mattress with Cool Action™ Dual Effects® Gel Memory Foam. The clothing and mattress deals each brought in between $1 million and $5 million last year, according to Trump's filings—and all three companies announced they were cutting ties with him after he said in June's campaign kickoff at Trump Tower that some Mexican immigrants are rapists. The speech, a loud amplification of *The Apprentice*'s insult drama, cost him some sponsors while hurtling him into the Republican stratosphere.

Antagonizing enormous swaths of North America, mocking women, and startling anyone tuned in to a few minutes of his speechifying wouldn't be a wise business move if those products were all he had, because he'd be alienating precious customers. But there's more to Trump's business, and not just because he has the real estate and golf portfolios. His brand isn't kindness and inclusiveness; it's aggression and extravagance and power. It's a self-rendered notion of an elite man who controls and wins, even when he loses.

That doesn't mean you can take the boasts about his empire literally.

"I'm the biggest developer in New York, by far," he told Larry King in 1999. "I'm the biggest developer in New York, and I'm not looking for additional work," he told the *New York Post* in 2003. "My name's Donald Trump, and I'm the largest real estate developer in New York," he said in 2004's *Apprentice* pilot, introducing himself in a limo. "Here I am, the biggest developer in New York," he told a reporter from Scotland in 2007. "The greatest builder is me, and I would build the greatest wall you have ever seen," he said this May, invoking his plan for Mexico's border at a speech in South Carolina. He pointed at his chest while rolling his head around. The crowd went wild.

Trump isn't the biggest New York developer. He isn't really a skyscraper developer anymore, and he hasn't been for years. He put up huge buildings and casinos, borrowed to do it, nearly wiped out, came back as a brand name that often needed bigger partners, was smacked by the financial crisis when he tried to again take massive risks, and ended up with a profitable business anyway.

The lesson from the 150-story building he craved is the same one you get from stepping inside the company. It's not the hugest in the whole world, and it's not what it was supposed to be, but it's something. And, like his politics, it can seem much, much bigger than it is.

Trump has crushed his presidential competition by presenting himself as the finest businessman ever to don a suit. Will his career's blemishes hurt him? Could Americans who love the great, amazing, terrific, perfect version of Trump accept the flawed one? In his office, he tells me that someone said the cool thing about his race to be the leader of the free world is that if he loses he gets to go back to being Donald Trump again—only an even vaster version.

"So win, lose, or draw, I'm glad I did it," he says. "Although it's too early to say that yet." B

PROPERTIES FROM TOP: MICHAEL COHEN/GETTY IMAGES; COURTESY TRUMP; WAYNE PARRY/AP PHOTO; OLIVER MORRIS/GETTY IMAGES; GEORGE ROSE/GETTY IMAGES; AERIAL ARCHIVES/ALAMY; CHRISTOPHER PENLER/GETTY IMAGES

RISING FROM A LOUISIANA BAYOU, AMERICA'S MOST UNLIKELY ENERGY PROJECT WILL CHANGE THE NATURAL GAS MARKET

SWAMP

THE SABINE PASS LNG EXPORT TERMINAL

BY MATTHEW PHILIPS

PHOTOGRAPH BY RUSH JAGOE

THING

From a mile away, at the distant end of a flat, two-lane road, the Sabine Pass Liquefied Natural Gas terminal materializes like an alien city from the haze of the Louisiana bayou. Five white cylinders with domed tops, each 140 feet tall and 225 feet in diameter, rise from the empty horizon. Set on the Texas border 4 miles from the mouth of the Sabine River on the Gulf Coast, the terminal is one of the largest industrial energy facilities under construction in North America. The domes, made of nickel alloy and wrapped in a layer of carbon steel, are essentially giant freezers, each capable of holding 81,000 tons of liquefied natural gas (LNG) at -260F.

Cheniere Energy, based in Houston, has spent more than a decade, and upward of $20 billion, turning 1,000 acres of swamp into the first LNG export terminal in the continental U.S. When the terminal goes live later this year, it will change the dynamics of the energy market in North America. The U.S. will be on its way to becoming a net exporter of natural gas. About 700 million cubic feet of the stuff will begin arriving each day from all over the country—from Texas, Pennsylvania, Ohio, and as far away as North Dakota—to this spot at the end of America's natural gas pipeline network.

At the terminal, the gas will circulate through roughly a mile of steel pipes and refrigeration systems organized into metal racks spread out across the plant. The racks aren't unlike the one on the back of a household refrigerator, except they're 500 feet wide and a quarter of a mile long. In the heart of each rack are two "cold boxes," the biggest of which is a 1,400-ton, seven-story steel rectangle. Those boxes are the property of ConocoPhillips. What happens inside is so secret that a Cheniere employee can't go in without being accompanied by someone from ConocoPhillips.

Over about five minutes, the gas will cool until it becomes a highly pressurized liquid, weighing 3.5 pounds per gallon, after which it will get pumped into those giant storage tanks. From there it will be loaded onto foreign tankers and sold to customers worldwide, from power utilities in Spain and Britain to state-owned gas corporations in India and Korea.

To cool all that gas, Sabine Pass makes its own power. Cheniere paid General Electric $1 billion for 24 gas-fired turbines that were initially designed as jet engines. By the time the terminal is fully operational, they'll generate about 450 megawatts of electricity, enough to power a city of almost 300,000 homes. The docks at Sabine Pass are in water deep enough to accommodate some of the largest tankers in the world. The energy each ship will be able to carry is equal to the explosive force of a 7.5-kiloton atomic bomb.

Sabine Pass isn't a project sponsored by an energy magnate such as Bill Koch or a megacorporation like Chevron. It is, for the most part, the slightly inadvertent creation of Charif Souki, 62, who's been the best paid, yet least known, executive in the business. He rarely speaks to trade publications and almost never does interviews with the national press—although he occasionally appears on *Mad Money*, as he did on Aug. 31. Twenty years ago, he ran a restaurant in Los Angeles.

STORAGE UNITS AT SABINE PASS

In a business dominated by lifers and specialists, Souki is a sparkling anomaly. He grew up in Beirut during the 1950s and '60s, splitting time between hanging out at the beach and skiing in the mountains an hour away. His father suggested school in the U.S., so he headed to Colgate in upstate New York. Three years later, Souki had a degree in finance, and two years after that, an MBA from Columbia Business School.

By then, civil war had broken out in Lebanon, so he took a job in New York at a small investment bank. Souki was young, eager, and fluent in French and Arabic. It didn't take his bosses long to figure out what to do with him. "They basically told me to go to the Middle East and grab as much money as you can and bring it back," Souki says. "That was my mission."

He spent the next decade putting together deals, shuttling among the Middle East, New York, and Paris. He had a young wife and two kids in Paris whom he'd go weeks without seeing. By the mid-1980s his first marriage had ended. He remarried, to Rita Tellone, a New York model he'd met in Paris, and shortly after retired at age 34. "I'd been chasing dumb deals for the last couple years, and I was tired of representing other people's money," Souki says. "I'd made a few million dollars. It was the mid-'80s,

FROM TOP: PHOTOGRAPH BY RUSH JAGOE FOR BLOOMBERG BUSINESSWEEK; PHOTOGRAPH BY BENJAMIN RASMUSSEN FOR BLOOMBERG BUSINESSWEEK

"EVERYONE KEPT SAYING, 'YOU'LL NEVER GET FUNDED.' THEY THOUGHT I WAS CRAZY"

SOUKI

and I didn't see anything that really made sense."

In 1987 he bought a house in Aspen and settled down to raise a second family and enjoy the outdoors. Within a year he was restless. A decade of living in some of the world's best cities had given Souki some elevated tastes. One of his favorite restaurants was Mezzaluna, an unpretentious Italian place on the Upper East Side of Manhattan. Souki cut a deal with the owner and opened a replica in Aspen. It was an instant hit, quickly attracting Jack Nicholson, Melanie Griffith, Don Johnson, and other '80s A-listers. Souki eventually opened three more restaurants in L.A. "I was in my 30s and needed a hobby," he says. "I thought I knew something about the restaurant business, which I didn't."

In 1993 he moved to L.A. His two oldest kids lived there, and he needed to spend more time managing the restaurants. Plus, seven years as a gentleman of leisure in Aspen had drained his bank account. "I had made a few investments on my own and thought I had enough to retire on," Souki says. "I was wrong." Over the next few years, he went back to raising money, this time for small businesses. They usually needed $2 million or so—nothing too big, but it got Souki putting deals together again. L.A.'s Mezzaluna had become one of the trendiest restaurants in town, a '90s yuppie hot spot in the Brentwood neighborhood.

On June 12, 1994, Nicole Brown Simpson showed up for dinner with her family. Her mother left her glasses behind; later that night, a young waiter, Ron Goldman, stopped by Simpson's condo to return them. Both he and Simpson were murdered, leading to the media supernova of the O.J. Simpson trial.

Mezzaluna quickly became a stop on the O.J. tour. Buses of tourists showed up, and lines formed of diners asking waiters what Simpson had ordered for her final meal (rigatoni, if you must know). "It wasn't a very nice picture into human nature," Souki says. "The morbid curiosity, the lack of taste and decency of people, was pretty astonishing." He was bombarded with interview requests from talk shows, none of which he accepted. "Ron Goldman was a friend, someone we considered close to our family. People were absolutely callous to this." He shut Mezzaluna down in 1997.

By then, Souki had begun a career in oil and gas. He'd decided he wanted to find a niche, an industry that he could learn about and specialize in and, most important, that was primed for technological disruption. At an energy conference in San Francisco, Souki heard a Chevron scientist talk about how computers were revolutionizing the maps energy companies use to hunt for oil and gas, improving the odds of drilling a successful well from 1 in 10 to better than 50 percent. Souki didn't need to understand geology to know what a breakthrough 3D mapping was. "My brain works quantitatively, and so it clicked."

And pretty much like that, he was a self-appointed energy executive. Armed with the technology, Souki looked into exploring for oil in the shallow waters of the Louisiana coast. Major companies had moved on to deeper waters, yet tiny pockets of oil and gas remained. Drilling for it would take tens of millions of dollars. Souki figured the best way to raise that kind of money was to sell shares to the public. Rather than start his own company, he bought a dead one. In 1996 he took over the shell of a defunct film-colorization company whose shares still traded. He changed the name to Cheniere—Cajun for "high ground looking over a swamp"—opened an office in Houston, hired a bunch of geologists and engineers, and became the founder and chief executive of a publicly traded energy company.

By 1997, Cheniere's stock was rising in a market that loved anything involving technology, and the company was worth about $50 million. Souki's story had all the hallmarks of the tech-bubble moment—computers were going to locate overlooked reserves!—but he was never going to find true gushers this way, and with oil and gas prices near decade lows, it was almost impossible to make money with small strikes. By late 2000 the dot-com boom was over, and

Cheniere's shares were trading for less than a dollar.

Souki started to study the economics of imports. The oil trade was dominated by enormous integrated companies that owned the whole supply chain, from refineries to gasoline stations. The natural gas side was more open—and more complicated. The U.S. imported almost all of its natural gas through pipelines from Canada and Mexico. Increasing amounts, however, had begun arriving on LNG tankers from Trinidad and Algeria, unloading at one of four aging import terminals. With forecasts predicting a rise in demand for LNG, Souki started driving around Texas and Louisiana looking for the perfect site for a terminal, quietly taking out options to buy hundreds of acres of the swampy coastline.

In June 2001, Cheniere announced plans to build four LNG import terminals, each one costing more than $300 million. Souki hit the road to raise money, but no one took him seriously. If anyone was going to build an LNG import terminal, it was going to be a major energy company, not some former restaurateur who couldn't keep his stock above $1. The government hadn't approved an import terminal in at least 20 years, and Sept. 11 hadn't exactly relaxed people about the idea of a giant facility filled with explosive gas. "Nobody believed it was going to work," Souki says. "Everyone kept saying, 'You'll never get funded.' They thought I was crazy." He went to 30 private equity firms; they all turned him down.

Souki eventually enlisted the help of Mike Bock, a Denver investment banker who specializes in raising money for oil and gas deals. "I told Charif we needed to find someone whose greed overwhelms his fear," Bock says. That led them to Michael Smith.

A big, burly guy from Long Island, N.Y., Smith built his own oil company, Basin Exploration, out of a few Colorado leases he'd bought in 1980 when he was 25. In February 2001 he sold Basin for $410 million. After several months on the golf course, Smith was ready to get back to work and scheduled a breakfast meeting in Denver with Bock. Bock turned up with Souki. The two had met years earlier, when Souki had tried to get Smith to invest in his seismic data idea. Smith had passed, considering Souki overly aggressive.

Souki laid out a plan for the four terminals. While Smith still thought Souki was pushy, overall he agreed with Souki's view that natural gas prices would rise. But four terminals for more than $1 billion? "Not a chance," Smith said.

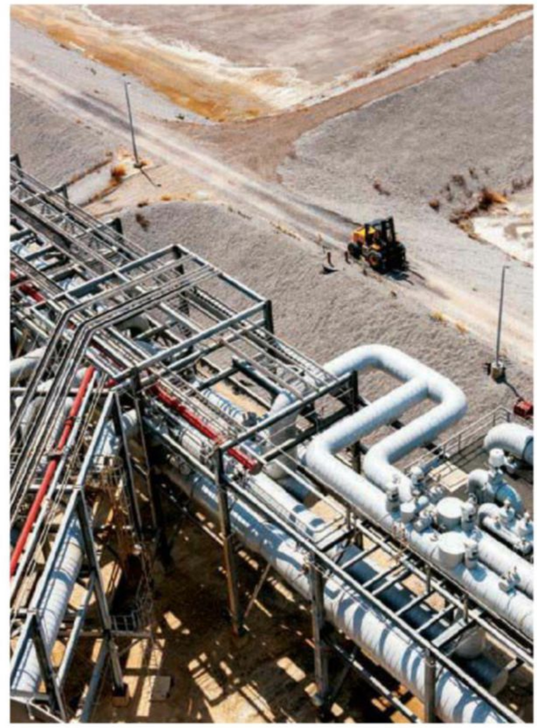
Several months later, in August 2002, Souki and Smith agreed on a smaller project. They would build one terminal in Freeport, Texas. But Smith wasn't just going to give Cheniere money—he insisted on forming a brand-new company, Freeport LNG. He would run it, he would fund it, and he would own 60 percent of it.

Souki, however, wanted to run his own terminal, and used part of the cash Smith put into the Freeport deal to begin developing an import facility at Sabine Pass. The partners soon became rivals. In 2010, Souki sold back Cheniere's stake in Freeport LNG. "We stayed friendly, but we were definitely hard-core competitors," Smith says.

Souki maintained control of his terminal—and the potential for reward that came with it. By the end of 2004, Souki had raised $300 million by selling common shares of stock in Cheniere to banks and investors. He'd also signed two oil majors, Total and Chevron, to 20-year agreements that required them to pay Cheniere a total of $250 million a year for natural gas from Sabine Pass, whether they took delivery of the stuff or not. (Such binding agreements are common in the capital-intensive energy business.) By late 2005, Cheniere was worth more than $2 billion. "We could do no wrong," Souki says. "Everything was coming along perfectly. But then, of course, 2008 hit, and all of a sudden the genius became the idiot."

In 2007, after years of trying, energy companies had finally started getting natural gas out of shale rock formations. One of the early evangelists of horizontal fracking was an oil and gas analyst named Vello Kuuskraa. Souki invited him to make a presentation

SABINE'S COOLING SYSTEM



at Cheniere in Houston, during which Kuuskraa predicted that natural gas production in the U.S. was on the threshold of an historic rise and that prices would crash, destroying the market for imported LNG—and Cheniere's entire business plan. Souki challenged his conclusions, but he kept inviting him back. Each time Kuuskraa returned, he brought more evidence that the shale boom was real. "I was like Dr. Doom," Kuuskraa says. "And each time I showed up, the doom got darker and darker." He was, of course, right, and by the end of 2007, Cheniere's stock price was starting to crash again.

On April 21, 2008, Cheniere held the inauguration ceremony for Sabine Pass. Busloads of executives and politicians, including Samuel Bodman, the U.S. secretary of energy, showed up. As Souki gave his speech in the marshlands that day, he could tell bad news was circulating through the crowd. That morning, Moody's put the Sabine Pass project under review for a possible debt downgrade. "Everybody had the good grace to wait to the finish to tell me what had actually happened," he says. On the ride back to Houston, Souki contemplated the fate of Cheniere, now teetering toward bankruptcy. "We'd built a world-class facility on time and on budget, and on that day the market had turned and decided that bringing LNG into this country was no longer necessary," he recalls. "It was like four years of work down the drain."

Perhaps the best way to understand Souki is through his favorite hobby: downhill skiing. An exercise in real-time risk management, it's most exhilarating when the skier is nearly, but not quite, out of control. Souki's stocky frame suits the sport, as does his temperament. "Charif has that innate ability to look down from the top of whatever situation he's facing and read it in a way that is extremely skillful," says Geoff Tasker, a former ski instructor and one of Souki's closest friends. The two met in Aspen in the mid-'80s. They now go backcountry heli-skiing together in Canada.

In the summer of 2008, Souki retreated to Aspen. Almost every day, he and Tasker would get on road bikes and ride

PHOTOGRAPHS BY RUSH JAGOE FOR BLOOMBERG BUSINESSWEEK

"I WAS LIKE DR. DOOM. AND EACH TIME I SHOWED UP, THE DOOM GOT DARKER AND DARKER"

through the mountains. "Charif isn't one to wallow, but that summer he was pretty down," Tasker says. Mostly, Souki was upset with himself. "He kept saying, 'S---, man, I can't believe I didn't see it coming,'" Tasker says.

In the spring of 2009, Souki started getting strange phone calls. The first came from Aubrey McClendon, the billionaire co-founder of Chesapeake Energy and a fracking pioneer. McClendon wanted to know if Souki could reverse direction and turn Sabine Pass into an export terminal. Not long after, an executive at Shell called asking the same thing. Souki started going to conferences where fracking executives were speaking. "They all seemed to have a problem they couldn't really discuss outright," he says.

Their problem was that frackers had unlocked so much gas that prices would soon fall below what it cost to extract it. Oil prices, on the other hand, were going up. Global LNG prices are linked to oil, which meant that while natural gas was cheap in the U.S., it was still expensive abroad. A thousand cubic feet of natural gas cost less than $4 in the U.S. and more than $10 in parts of Asia, Europe, and South America.

In September 2010, Cheniere became the first company to apply to the Department of Energy for a permit to export liquefied gas to countries without free-trade agreements with the U.S., which account for about 90 percent of the global economy. It was followed three months later by Smith's project in Freeport. The department approved Cheniere's application in May 2011. By then other companies had applied for licenses. Rather than continuing to approve applications, the DOE commissioned a yearlong study to determine whether exporting natural gas was in the public interest of the U.S. While Souki was sprinting ahead, raising money, and signing contracts, Smith, along with everyone else, was stuck at the starting line. Souki's three-month head start turned into two years.

By October 2011 he had a deal to sell $8 billion of gas over 20 years to British Gas, the world's largest natural gas trading company. A few months later, Blackstone, the giant private equity group, agreed to invest $2 billion toward the construction of the terminal. By August, Souki had an additional $1 billion committed from the governments of China and Singapore. Souki even got the Teachers Retirement System of Louisiana to kick in $17 million. Martin Houston, the former chief operating officer of BG Group, had been watching Souki from afar, marveling at his ability to stay afloat amid the chaos. "I learned never to bet against him, that's for sure," Houston says. "Everything he's done in his life, he's done with gusto and passion, and I consider him one of the great entrepreneurs of our time."

By next year, the Sabine Pass terminal should provide enough revenue to finally make Cheniere profitable, which it's never been. For engineering the turnaround, Souki has paid himself fantastically well. In 2013 his total compensation was $142 million, good enough to make him the highest-paid CEO of a U.S. public company. About $130 million of that came in the form of company stock.

In 2011 and 2013, Cheniere shareholders approved incentive packages granting a total of 27 million shares to be distributed among all company employees. In 2014 shareholders revolted and sued over what they claimed had been an improper vote count over the bonus pool. In a settlement reached last year, Cheniere won't be able to ask shareholders for additional stock grants before 2017. The defendants didn't admit wrongdoing.

Souki has decided to forgo his salary and bonus. Since Sept. 2, 2014, he's sold $157.6 million of his shares in Cheniere, according to data compiled by Bloomberg. "Charif's arrogance has made him a rich man, but it's almost bankrupted him, too," Smith says.

David Foley, who runs Blackstone's energy group, now sits on Cheniere's board. He'd passed on Souki's import idea in the mid-2000s but couldn't help but be impressed by his grit after almost going bankrupt. "Some guys would be happy just to be alive after that," Foley says. "I think Charif wanted to not leave the battlefield limping. He wanted to go out a winner."

Souki hasn't won quite yet. The recent crash in oil prices has lowered the price of LNG in most of the countries he hopes to be selling into. The arbitrage isn't what it was; with oil below $60 a barrel, it's not clear it exists at all. But 80 percent of Sabine Pass's capacity is contracted to buyers who have to pay whether they take the gas or not. Cheniere executives insist that's enough to lock in a double-digit annual return. The remaining 20 percent of Sabine Pass's capacity Cheniere will keep for itself and sell around the world to the highest bidder, if it can.

On Aug. 6, activist investor Carl Icahn disclosed that he'd built an 8.2 percent stake in Cheniere. Souki agreed to give Icahn two seats on the Cheniere board in return for Icahn signing agreements that limit his ability to wage a proxy fight or publicly agitate about the company.

In 2013, Souki started buying real estate in downtown Aspen and paid $27 million for a ranch outside the town. When he's in Houston, he lives at a Four Seasons hotel just a few blocks from his new office. This year, Cheniere moved into Shell's old space in a high rise downtown. Souki cautions against reading too much into that. Shell moved to the outskirts of the city, and Cheniere needed more room, simple as that. Asked if he worries about getting too big and losing his ability to maneuver, Souki says, "That's the only way I see of running things. If I lose that, I will have lost my relevance." B

AT THE SITE

You're Invited to a Finnish Tea Party!*

*(Unless you're gay...or Muslim...or Greek)

By Stephan Faris
Photograph by
Aapo Huhta

The Finns leader Soini with lawmakers (left to right) Anne Louhelainen, Ritva Elomaa, and Arja Juvonen

In early August, Timo Soini, the foreign minister of Finland, mounts a stage at the convention center in the town of Turku. The occasion is celebratory, marking the 20th anniversary of the formation of the Finns, the conservative party he heads, and his entrance into government for the first time following elections in April.

Soini is a big man, with the girth and mirth of a television sitcom dad and a gift for the colorful phrase. His speeches are usually easygoing affairs, loaded with crowd-pleasing mockery of Finland's participation in the bailout of Europe's weak southern economies. But on this occasion his imagery is stark. He describes his party's performance in the election as "a hard, diamondlike achievement" and likens the tough decisions he's since had to make as facing "the cosmic cold."

In the past 20 years, Soini has led the Finns from an insignificant also-ran to the country's second-largest party, now governing in coalition with two other conservative parties, including Prime Minister Juha Sipila's Centre Party. Soini has done so by being the voice of opposition. And yet, just three months after taking office, he's being forced to explain why Finland agreed to sign on to a new €86 billion ($96 billion) bailout for Greece.

When Greek Prime Minister Alexis Tsipras and his left-wing Syriza party forced a crisis in June by skipping payment on part of its country's debt, Finland was among the countries favoring the harshest response. Largely because of pressure from the Finns, Helsinki's official position going into the negotiations was that Athens should exit the currency union, at least temporarily.

When the talks instead looked likely to produce a new rescue package—Greece's third bailout in five years—Finnish media reported that the Finns were threatening to bring the government down. Soini denies that. "We decided to stay in government," he tells the assembled members of his party. "All the members of Parliament voted for the deal. But this doesn't mean we are happy with what's happening in Europe."

Allowing Greece to fail, he explains, would cost Finland from €3 billion to €4 billion (money it's already lent to Athens) and weaken Europe strategically. Sticking to his principles and bringing down the government would have opened the door for political rivals and reduced his ability to shape a rescue package that Finland couldn't block on its own. Soini characterizes his acquiescence as the inevitable result of the previous government's commitments, which—unlike his Greek counterparts—he feels honor bound to uphold. "We are not Syriza," he says. "And we won't be."

Like Syriza, however, Soini is learning that being in government means sometimes carrying out policies you oppose.

Soini founded the Finns in a typical Finnish fashion, with three other men in a sauna. He and his confederates had been members of the Finnish Rural Party, which went bankrupt and disbanded in 1995, and they believed there was space for a party representing the conservative working class.

Perussuomalaiset is the party's name in Finnish, and until 2011 its official English-language name was the True Finns. "That sounded much more right wing than we actually are," says Sampo Terho, the party's current leader in Parliament. "It sounded like there were false Finns and true Finns." Translated literally, the name means "basic Finns," but its significance is closer to "ordinary Joes."

Finland is a country of 5.4 million. Its political culture is based more on consensus than conflict, and its spectrum is narrow: Every party in Parliament is a staunch supporter of the welfare state. So its politicians differentiate themselves primarily in terms of cultural identity.

The Finns party is unabashedly populist. Its signature topics are immigration, family values, opposition to European authority, and identity issues such as eating meat, wearing fur, and driving big cars. In the European press, the Finns are often grouped with far-right parties such as the Italian Northern League or France's National Front, but the closest analogue may be the American Tea Party, with antipathy toward the European Union in place of objections to wasteful government spending. Its implicit promise is a return to a simpler time, when the economy was predictable and the culture was uniform.

Soini isn't considered by most Finns to be racist, but his party contains a vocal anti-immigrant wing, one that he seems reluctant or unable to contain. Members of the Finns include Teuvo Hakkarainen, a parliamentarian who once "joked" that Finland should exile Somali refugees and homosexuals to an archipelago in the Baltic, and Jussi Halla-aho, a member of the European Parliament who was found guilty of hate crimes in 2012 after blogging that the prophet Muhammad was a pedophile.

Soini and Finnish Rural Party official Reijo Rinne in 1992

The roots of the Finns' success, however, are based around criticism of Brussels. In its first decade the party struggled to gain support. The turning point came in 2006, when Soini stood for president using the slogan "Where there is the EU, there is a problem." Soini lost the race, but he'd begun to change the national discourse—and to gather votes.

Before Soini's rise, Finland's approach to the EU was to lead by example, to bank political capital by being constructive and cooperative. It allied itself with other northern states and with Germany. The country's accession to the EU in 1995 was little debated. The euro was adopted without a referendum.

Economists had warned of the difficulties that joining the EU and currency union could cause, especially for the country's labor market and its uncompetitive agriculture sector. But the geopolitical argument that Finland was safest nested firmly in the West dominated the decision-making. "The thinking was, we want to be at the core of Europe," says Vesa Vihriala, managing director of ETLA, the Research Institute of the Finnish Economy. Criticism of Brussels was considered impolite.

That began to change as the Finns climbed in the polls and the European economy started to unravel. In 2009, Soini was elected to serve in the European Parliament. Later that year, Greece admitted that it had underreported its deficit and concealed its debt. By early 2010 the country had lost the confidence of the markets, forcing the rest of the euro zone to provide Greece with a €110 billion rescue package.

By the time Finland held its next parliamentary elections in April 2011, Ireland, too, had asked for assistance, Portugal was on the ropes, and Greece was headed toward a second bailout. Soini's EU-critical platform netted him 19 percent of the vote, making his party the country's third-largest. "Europe is suffering from the economic gangrene of insolvency," Soini wrote in an editorial in the *Wall Street Journal* shortly after the election. "Unless we amputate that which cannot be saved, we risk poisoning the whole body."

When the euro zone bailed out Greece for the second time the next year, Finland was the only country to ask for, and receive, a guarantee on its loans. Its finance minister, Jutta Urpilainen, a Social Democrat, insisted on €1 billion in collateral. "Soini changed the system," says Charly Salonius-Pasternak, a senior research fellow at the Finnish Institute of International Affairs. "In Finnish politics, for something to shift so dramatically in half a decade is nearly impossible."

The starkest divide in Europe isn't between rich countries and poor countries or debtors and creditors, but between those who believe society works best when the rules are strictly followed and those who insist the context must be considered. "In Brussels, the countries that do not want to follow the rules always put it as, 'Of course, we want to follow the rules, but smartly, humanely,' " says Terho. "And then of course, 'How can you be opposed to being smart and humane?' "

In *La Bella Figura: A Field Guide to the Italian Mind*, the Italian journalist Beppe Severgnini describes how his countrymen approach traffic signals, waiting for the green at a dangerous intersection, but perhaps blowing past a red if it's at a crosswalk at an hour when no pedestrians are likely to be around. "We think it's an insult to our intelligence to comply with a regulation," he writes. "We want to decide whether a particular law applies to our specific case. In that place, at that time."

In Finland, such an approach borders on the unthinkable. "You wouldn't even consider jaywalking," says Salonius-Pasternak. "If you follow the rules and get screwed over by external circumstances, of course you should be helped; that's why we have the welfare state. But if you try to go around the rules and get in trouble because you got caught, you're not going to get a lot of sympathy. This is deeply ingrained in every Finn."

In Finland, Greece is widely viewed as receiving its justified comeuppance. After all, it broke the rules. "It's morally wrong that we should work our socks off here in order to pay the debts of other countries," Soini says.

Finland prides itself on honoring its debts and facing its greatest challenges on its own. Finland, its citizens like to point out, is the only country that repaid its World War I debt to the U.S. During World War II, Finland fought off a Soviet attack and then joined Nazi Germany in an assault on Leningrad. As part of the Paris Peace Treaty, it was required to pay crippling war reparations to Moscow. By the early 1950s, this, too, had been paid in full.

Soini, who converted to Catholicism in the 1980s, attributes the Finnish attitude toward debt to the country's Lutheran heritage. "It comes from an ardent Protestant, Max Weberian idea: *Ora et sabora*—pray and work," he says. "Even people who aren't religious, they

CLOCKWISE FROM TOP LEFT: PHOTOGRAPH BY AAPO HUHTA FOR BLOOMBERG BUSINESSWEEK; JOHN PALMEN; JUSSI VAANANEN/HELSINGIN SANOMAT

are culturally Lutheran. They want to keep their rooms tidy. They want to appear at 6 o'clock if that's when you're supposed to be there. It would be horrendously impolite to be 15 or 20 minutes late. When I was in the European Parliament, I'd go for dinner, and if it was due to begin at 7 o'clock, there would not be a single soul there until 7:45. Outrageous! Only the Germans would be there. And the Dutch. Maybe."

Finland is similar to Greece in one important way. As a member of the euro zone, it lacks control over its monetary policy. The country entered the global economic crisis with its finances in good shape. But its export-oriented economy took a serious hit as demand dried up in Europe and the U.S. In 2009, Finland's gross domestic product dropped 8.3 percent, and its economy has since received blow after blow: the collapse of Nokia; the drop in demand for paper, a key industry; the effect of Western sanctions and plummeting oil prices on the Russian economy.

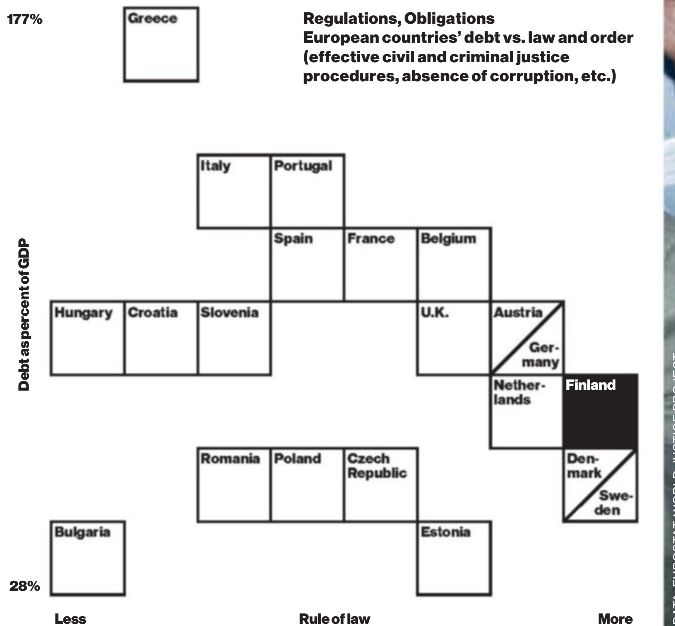
When faced with an even deeper crisis in the 1990s, triggered by the fall of the Soviet Union, which by then had become an important trading partner, Finland was able to depreciate its currency to regain competitiveness. This time it has to take on the far more politically difficult task of an internal devaluation, lowering labor costs by cutting wages and other means.

But while voters in other countries have railed against austerity, the Finnish electorate embraced it, putting into government—along with the Finns—two conservative parties that had promised fiscal discipline. The only party to propose an increase in public spending, the Left Alliance, was


Celebrating parliamentary elections earlier this year

roundly defeated. "The people of Finland think it's time to cut our expenses," says Olli Koski, chief economist at the Central Organization of Finnish Trade Unions. "They're afraid of too much debt."

Financial restraint, though, might be easier to accept in the abstract. The new government plans to reduce spending and raise taxes by €4 billion to €6 billion, and it asked the country's unions and employer federations to come up with a way to lower the unit cost of labor by 5 percent—most likely by extending working hours and cutting vacation days. The unions rejected this plan, and the government is working on new proposals. "I always decline to use the word 'austerity' because it is so loaded," says Olli Rehn, the minister of economic affairs and a member of the Centre Party. "We want to stabilize public finances. We have been on a path of very rapid indebtedness, and that's not sustainable for any country, especially a small country like Finland."



Like Tsipras in Greece, Soini has a new challenge: how to transform his insurgency into a responsible governing party, capable of navigating the competing pressures of its reactionary constituency and the realities of political office.

During the party congress in Turku, Soini's position as head goes unchallenged in leadership elections. But the membership expresses its displeasure by voting into the four-person chairmanship Sebastian Tynkkynen, the 26-year-old head of the party's youth wing, who jumped into the election three days earlier, campaigning on a platform of leaving the euro zone.

"We should start the domino effect and be the first one," he says shortly after the election, vowing to challenge the direction the party is taking. And the loudest applause during the gathering goes not to Soini's careful defense of the Greek bailout, but to a combative speech by the Muhammad-bashing European Parliament member Halla-aho attacking the party's critics as "enemies of democracy."

At the end of the second day of the conference, Soini is tired and sweating, having sacrificed sleep to socialize. "You cannot start from the top of the hill," is how he puts it when asked how he was doing holding his party together. "You have to crawl. And the higher you get, the more slippery your route will be. That is why you must be very, very patient."

There is a growing consensus among Europe's political class that the currency union isn't sustainable in its present form. The choice is between cutting the deadweight—letting Greece go, to begin with—or somehow deepening economic integration: sharing debt burdens, instituting union-wide unemployment insurance, pooling finances. The decision to offer Greece a third bailout points to the real possibility of policy moving in that direction, especially if the euro zone were to experience another unexpected shock.

Putting those measures in place would require the EU to reopen its treaties with the unanimous consent of its members. Soini vows to block any modification of the treaties. But while Finland could try to persuade other northern countries to oppose the changes, it would be hard-pressed politically to stop them on its own, especially if Germany decided to deepen integration. As reluctant as the Finnish electorate may be to take on Greece's debt, few in the country believe that an exit from the euro zone—and the increased exposure to pressure from Russia—would have popular support.

Asked whether his countrymen's financial principles will win out over their security concerns, Soini smiles. "I'm sometimes very philosophical," he says. "I say, 'The horse has a bigger head.' He should be more worried about this than myself at this time."

I tell him I don't understand. "I know you don't," he says. "But this is the way I speak. If there is no clear yes-no answer, then my answer is a little bit cryptic."

He laughs. "My intention is not to be a great leader," he says. "I'm not a kind of Moses. Moses led the people to the Promised Land. I'm not like that. But I'm bloody enjoying rocking the boat." B

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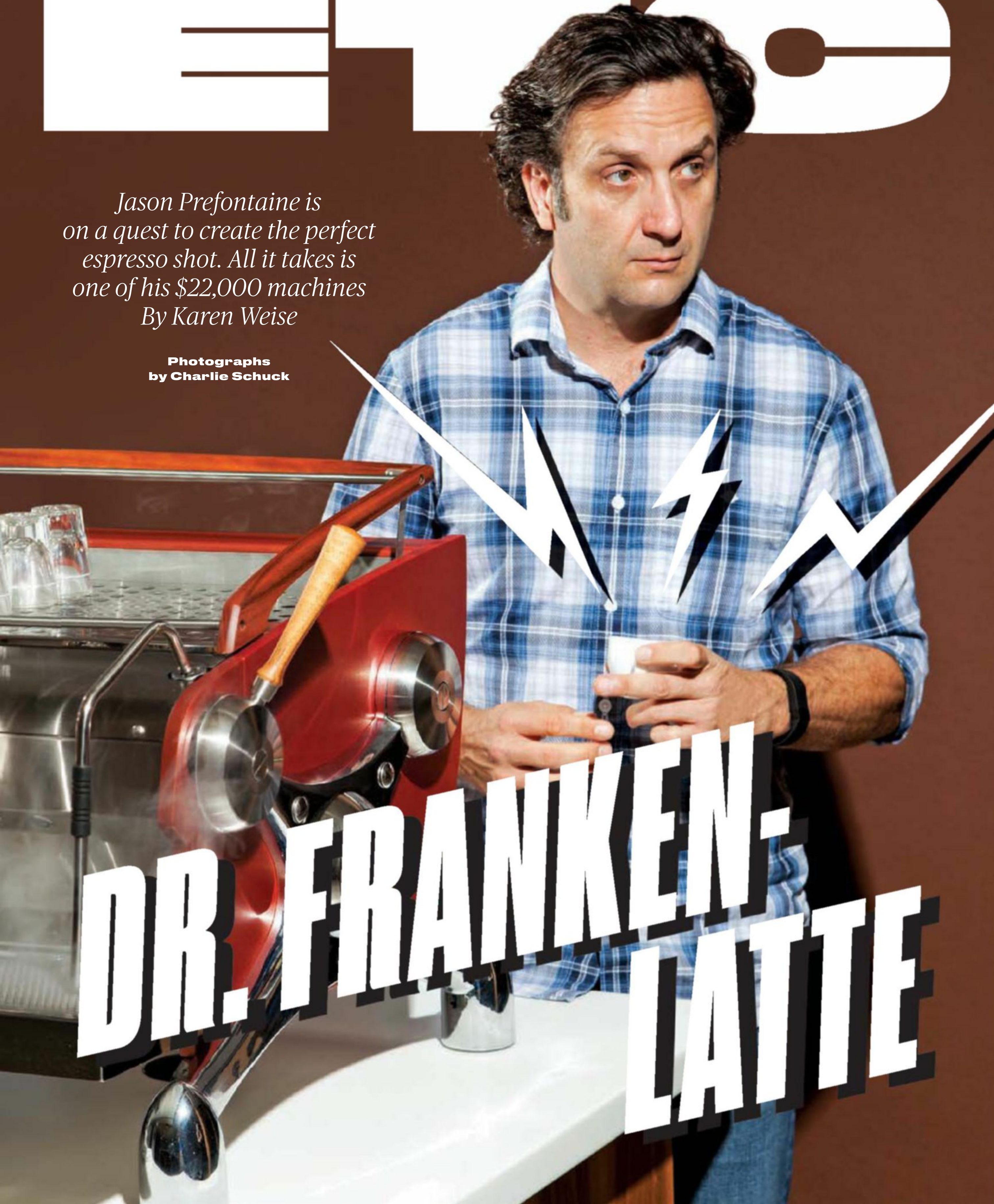


DR. FRANKEN-LATTE

Jason Prefontaine is on a quest to create the perfect espresso shot. All it takes is one of his $22,000 machines
By Karen Weise

Photographs by Charlie Schuck

Jason Prefontaine is standing in front of the Slayer, his company's $22,000 espresso machine. It's a beautiful beast, finished in a pearly burnt orange and built to brew for the truly obsessive. But he doesn't think he should make a shot of espresso. He doesn't know which beans are in the grinder, and Prefontaine only likes to make flawless shots.

Realizing he probably shouldn't send me off without a Slayer shot, he goes into a trancelike state. He brews one shot, which tastes fine but a little thin, with a bitter aftertaste. He tries again, tweaking the settings. Slayer's the only commercial espresso machine that lets a barista choose exactly how much water hits the beans in a given moment. Prefontaine is adjusting it to make each shot slightly richer, juggling the temperature, grind, and water flow. The shots become sweeter and more viscous. He tosses out one without even tasting it: "That's still too fast," he scoffs. Eight attempts later, Prefontaine finally pulls a shot that's acceptable. It's got a round, bright flavor, with no hint of bitterness. "I can taste the f---ing beans in this," he says, beaming.

In the past 15 years or so, coffee growers, roasters, and drinkers have become hyperattuned, focusing on the ripest berries from the part of a farm that receives an optimal amount of sunlight. Quality beans can be roasted lighter, so the flavor isn't burned out. "That's what led to getting clean, sweet coffee instead of muddy, fermented coffee," says Jeff Taylor, co-founder of PT's Coffee Roasting, which has been roasting since 1997.

The final frontier in coffee elitism was building machines that could brew these fancy beans to their highest potential. "I have my techniques and my skills and my beans so fine-tuned and detailed. Then you start using these espresso machines that are inconsistent," says Pete Licata, co-owner of the Roast Ratings website and winner of the World Barista Championship in 2013. Even top machines would run out of steam at a busy cafe, and their water temperature would fluctuate by as much as 10 degrees.

The Slayer, which entered the market in 2009, is the most extreme solution to this high-class problem. It's also among the most expensive, though similar products from other commercial manufacturers, including La Marzocco, Nuova Simonelli, and Synesso, now start at more than $17,000. All cater to the top echelon of baristas, who obsess over the moment water first hits the grounds, when the beans release carbon dioxide and puff up—what's known as blooming. After that settles, the extraction process begins, and the water pulls out the flavors and oils. Pros from third-wave coffee shops and chains like Blue Bottle and Stumptown want to slow down how quickly the beans get saturated, so the espresso has time to fully develop before extraction begins.

Most of Slayer's competitors do this by letting baristas reduce the pressure at the beginning of the process. Slayer instead keeps the pressure steady as baristas reduce the flow of the water, which allows them to grind the beans finer. "It really kind of changes everything that you knew about dialing in the espresso," says Ross Beamish, who works at Seattle's Visions Espresso Service, which distributes high-end brands.

Cafes also want these machines to look impressive on their bar. On Instagram, Slayer's more than 42,000 devotees ogle and 😍😍😍 at the almost 800 machines it's shipped around the world. About half of the Seattle company's customers choose to customize the exterior, which can cost an additional $600 to $2,000. There are powder-coated Slayers in neon green, backlit Slayers with laser-cut logos, and Slayers with see-through panels that show off the industrial interior. There's a marble-sided machine in Australia and one with walnut panels in Taipei. Blue Bottle has a leather-sided Slayer in Brooklyn, and a Manhattan cafe is pushing the boundaries of taste with a Slayer plated in 24-karat gold. Italian stalwarts like La Marzocco and Nuova Simonelli offer more digitized machines and "a little bit of a security blanket" to new cafes, Taylor says. The Slayer is "a little more risqué."

Slayer recently started powder coating the exterior of **grinders** made by Compak, so cafes can match their custom Slayers

As Prefontaine sees it, Slayers "are designed for the most insane cafes in the world." One such spot is Coffee Shop, which opened in Walnut Creek, Calif., this spring and sells the kinds of single-origin beans and $4 lattes that have come to define certain urban enclaves. Justin DiMauro, 35, worked at Peet's Coffee & Tea for five years before opening Coffee Shop; a co-worker first showed him a Slayer on Instagram about a year and a half ago. "It started with, 'Oh man, these look cool,'" he says.

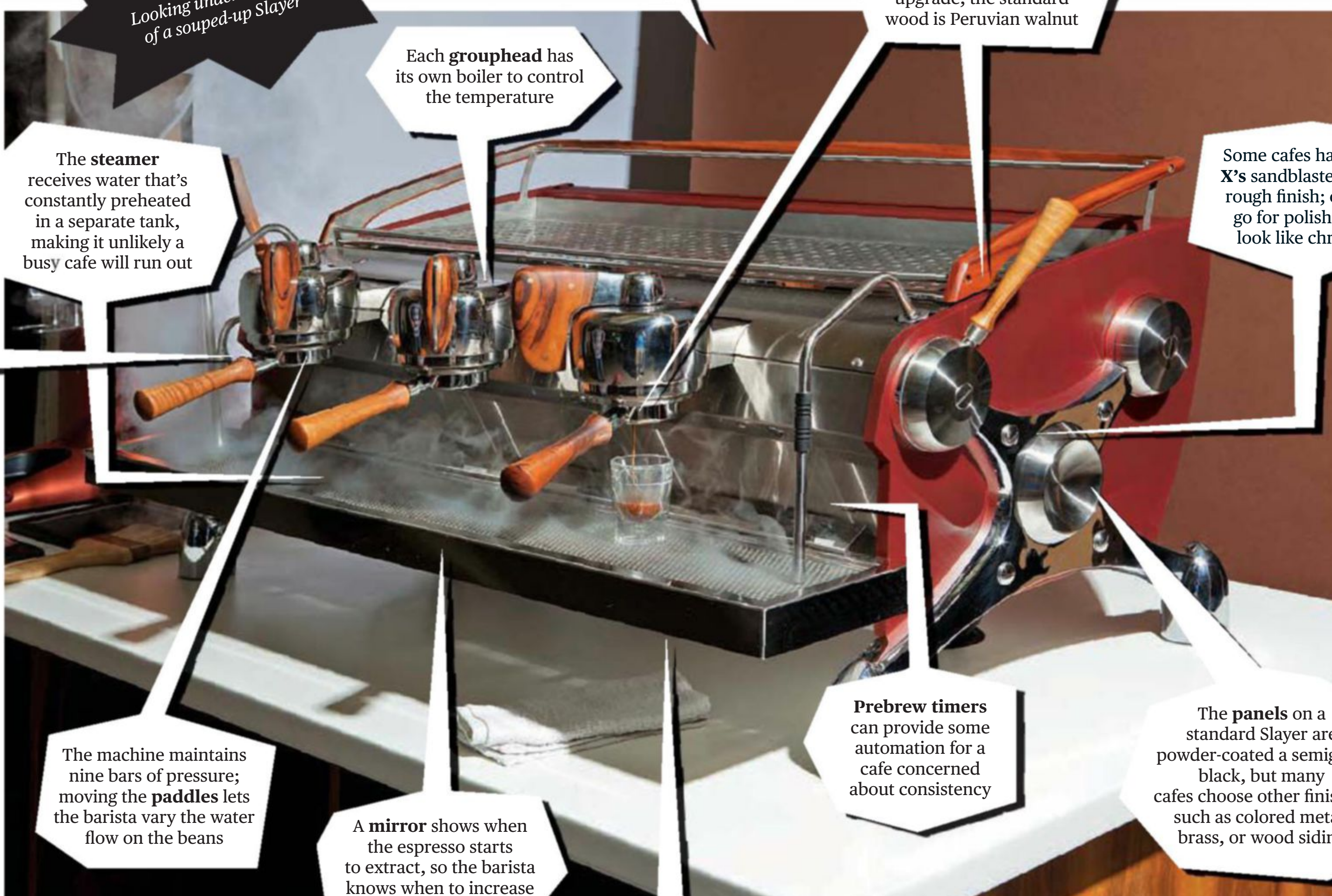
"I WAS AT A POINT WHERE I KNOW IF I DIDN'T SELL A MACHINE THAT F---ING WEEK, I WOULD GO OUT OF BUSINESS"

DiMauro followed Slayer on Instagram and learned how specifically the machines could brew. Then he splurged on two of them—each with custom powder-coated yellow sides—deciding the variable controls suited his cafe's concept of serving beans from a variety of roasters, like a chic wine bar. "I didn't feel like a one-size-fits-all approach would work for us," he says. "I wanted to match what the roaster was doing."

Growing up in Calgary, Prefontaine, now 46, was a kid when coffee culture started taking hold in North America. In his teens, he helped his father's business, which supplied corporate offices with instant coffee brewed in vending machines. His father's clients started asking for better joe, so his dad got into roasting in the mid-1980s. Soon after, Starbucks began expanding rapidly, and specialty coffeehouses opened. "You remember when *Friends* first started?" Prefontaine asks. "Oh,

Get Jolted

Looking under the hood of a souped-up Slayer



PHOTOGRAPH BY CHARLIE SCHUCK FOR BLOOMBERG BUSINESSWEEK

my God, they actually have a cappuccino machine on TV!"

As Starbucks grew, it started importing thousands of La Marzocco machines to outfit its cafes. Then, in 2004, the chain switched to an automated technology its enormous workforce could learn more easily. Independent cafes scooped up the secondhand machines that flooded the market. This helped La Marzocco, based in Florence since the 1920s, remain the leading global brand; last year, the company sold 10,000 machines, according to the *Seattle Times*.

In 2004 a former La Marzocco engineer founded Synesso, the first company to produce a machine with stable temperature control. Three years later, Prefontaine, working with former Synesso employees, used savings and home-equity loans to fund the development of Slayer.

Prefontaine knew Slayer couldn't go head-to-head with the dominant Italian look, that streamlined style of midcentury industrial design. Slayer would have to be pure American. Substantial, muscular, metal, like a Harley-Davidson. The aggressive aesthetic suits Prefontaine, too. He's serious and gestures intensely to match his staccato train of thought. At one point during the Slayer's early development, he told his product designer, "I want when this machine is being delivered—beep beep beep," he recalls, interrupting himself like a fork lift. "Everyone gathers around and says, 'Oh, my God, it's here, guys, it's here.' I want the first word out of somebody's mouth to be 'F--------ck.'"

Suppliers make parts to the company's specifications, and Slayer assembles and tests the machines in Seattle. Most early buyers were abroad, particularly in Australia, which has one of the world's most obsessive coffee cultures. Sales grew, but only slowly. "Probably three times I was at a point where I know if I didn't sell a machine that f---ing week, I would go out of business," Prefontaine says.

Cafes found the Slayer required too much maintenance, particularly on a valve that modulates the water flow. The machine also didn't have a way to standardize a brew. Taylor, from PT's, tested an early model. "It was just awesome," he says. But he didn't buy one for his cafe. "If I put this on my bar, how on earth would my baristas serve a consistent coffee?"

So the Slayer team redesigned several elements, including that problematic valve. They built a robotic arm that simulated making a shot every seven seconds and ran it a million times. The robot broke before the valve did. Another change also let baristas set an automated timer for the prebrew, creating the consistency Taylor and others wanted.

In late 2013, Slayer started selling the updated machine, and Prefontaine says sales grew from roughly $1 million a year to $4 million in 2014. This summer, Slayer moved from a hip studio with exposed brick at an old beer factory into a banal office building built in the 1990s. The digs are less inspiring, but there's room now to accommodate all 17 employees.

Taylor's latest cafe, which opened in Kansas City, Mo., was one of those new sales. He customized his Slayer to have a pearly white finish, which he figured would make the machine versatile enough to resell if it doesn't work out. He says baristas now apply for jobs specifically to work on the machine. It's attracted customers, too, Taylor says. "We had people come in just because they heard we had a Slayer." Ⓑ

Miansai leather cardholder
$95; barneys.com
For the minimalist: It holds only four cards and a few bank notes or receipts.

Bottega Veneta washed-lambskin bifold wallet
$480; bottegaveneta.com
A clean exterior hides pockets and 10 slots; resist bulk by not overstuffing it.

Prada printed Saffiano leather wallet
$440; prada.com
The retro 3D print adds visual heft, though the textured calfskin's plenty light.

Flaunting Cash

The latest unisex wallets mix materials, colors, and clever pockets. Go ahead and get the bill

Want Les Essentiels de la Vie money clip wallet
$145; wantlesessentiels.com
A snap-strap secures plastic—put your cash in the money clip on the back.

Comme des Garçons wallet with zipper
$362; shop.doverstreetmarket.com
It's textured outside, with a smooth interior that's got a useful expanding coin pocket.

Alexander Wang compact wallet
$275; alexanderwang.com
A hidden slit on one side keeps your debit card and license handy.

PHOTOGRAPHS BY PIETRO COCCO FOR BLOOMBERG BUSINESSWEEK

DON'T CALL IT A SEQUEL

Why Hollywood's obsessed with resuscitating decades-old characters. By Bilge Ebiri

With each passing year, Hollywood looks farther back for properties to revitalize. And this summer proved the industry has yet to meet a title that's too washed-up to dust off. "The people who decide what's going to get made have come of age," says David Poland, editor-in-chief of *Movie City News*. "They're making the kinds of movies they were obsessed with as kids."

That explains breakout titles like *Mad Max: Fury Road*, featuring a character last seen in *Mad Max: Beyond Thunderdome*, which opened 30 years ago. Or *Jurassic World*, Universal's critically dismissed dino revamp, which grossed more than $1.6 billion worldwide, making it the year's biggest hit so far. There's since been a so-so new *Vacation* and a solid *Mission Impossible*, but the real nostalgia trip is yet to come. *Star Wars: The Force Awakens* opens in December. Disney and Lucasfilm are already filming two more with Oscar Isaac and the other new stars.

It used to be that faithful sequels released in rapid-fire succession were surefire hits. Strangely, the further these franchises have strayed from the source material, the better they've done. Simply updating an old storyline no longer draws an audience. Late June's *Terminator: Genisys*, for instance, featured Arnold Schwarzenegger returning to the role that made him a superstar back in 1984. Marking Schwarzenegger's first appearance as the Terminator since 2003, the Paramount release felt like a retread of the earlier films. And it opened to a pathetic $27 million.

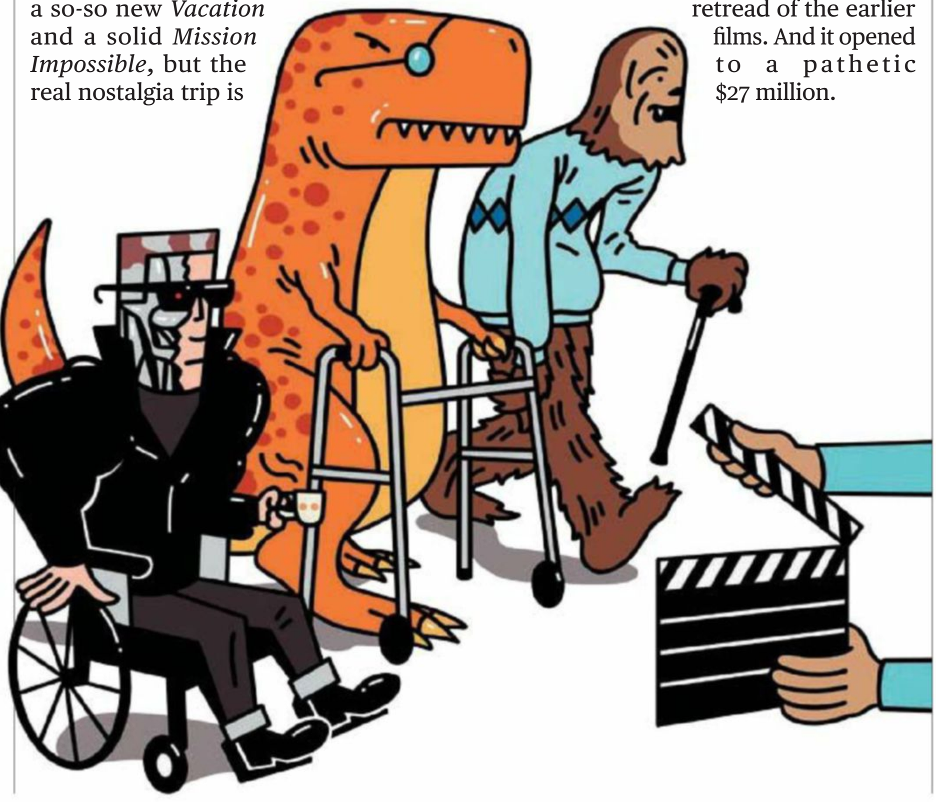


ILLUSTRATION BY SAM ISLAND

> "AUDIENCES WERE READY TO SEE DINOSAURS EAT PEOPLE...AGAIN"

Fans of the *Transporter* series will probably scoff at *The Transporter: Refueled*, Lionsgate's sad attempt to revive a franchise that starred Jason Statham as a hotshot driver who carries secret cargo for shady figures. The last one, *Transporter 3*, opened in 2008 to decent, if unspectacular, numbers—$31.7 million in the U.S., $109 million worldwide—capitalizing on the rise of its tough-guy star. But that was seven years ago. After Statham refused to sign on for three more movies, the studio swiftly replaced him with Ed Skrein, a relatively unknown English actor.

Jurassic World, for its part, looked little like its predecessors. At first, director Colin Trevorrow's film came under fire for what some considered sexism, but that didn't stop people from buying tickets. "Many young adults who were part of the *Jurassic Park* summer of 1993 came out with their kids in tow," says Gitesh Pandya, founder of Box Office Guru. "Audiences were ready to see dinosaurs eat people on the big screen again," Poland says. The script, although technically a sequel, relied on fresher faces playing new characters. It helped that one was Chris Pratt, a huge star after last year's *Guardians of the Galaxy*.

Terminator: Genisys also tried to surround its weathered star with young blood, but it didn't help. "Schwarzenegger has had one failure after another since he returned to movies," says Phil Contrino, chief analyst at boxoffice.com. And the film, which lacked the guiding hand of creator James Cameron, wound up feeling like a lackluster rehash, not a reinvention for a new generation.

There is hope yet for international success. *Genisys* had a massive opening in China on Aug. 23, making $27 million in one day. That's why "resuscitating even a decades-old franchise is often more appealing than making an original film," Pandya says. So prepare yourself for the all-female *Ghostbusters*, coming in January. And the update to 1982's *Blade Runner*. And the follow-up to 1996's alien-invasion hit *Independence Day*. And even *Top Gun 2*, which will reportedly bring back Tom Cruise some 30 years after he first took flight. After that comes *The Legend of Conan*, featuring Schwarzenegger as the aging barbarian he made famous in the mid-'80s. Then, probably, another *Terminator*. The "I'll be back" jokes are just writing themselves. B

Get the Flowers Yourself

Eight vases worth the desk space, each with blooms that last awhile
By Monica Khemsurov

Elevated vase by Thomas Bentzen for Muuto

It's like a more sophisticated terrarium, with a wide opening that prevents condensation and allows for easy cleaning. Try succulents and air plants on a base of moss and bits of cork, a quirkier alternative to traditional rocks. *$129; aplusrstore.com*

Egg vase by Workaday Handmade

The classic earthenware goes well with not-yet-autumnal foliage. This green medley of anthurium leaves, asparagus ferns, steel grass, and white kangaroo paw will hold up. *$100; store.mociun.com*

Weight vase C by Decha Archjananun for Specimen Editions

White anthurium has a classic look that plays well off this tough concrete vessel. Just a few stems are all you need for a clean look on a messy desk. *$360; mattermatters.com*

PHOTOGRAPHS BY TED CAVANAUGH FOR BLOOMBERG BUSINESSWEEK

True Colour vase by Lex Pott for &Tradition

This bright arrangement of orchids and anemones will pop against a reception desk. The oxidized copper vase makes the bouquet feel less bridal. Just make sure to replace the water every few days.
$330; suiteny.com

Via Fondazza vase by Skultuna

Oncidium orchids' slender stem and wide spray are ideal for a vase with a narrow mouth. To maintain the mirror shine of this polished brass, avoid getting the exterior wet.
$129; kaufmann-mercantile.com

How Do I Find These Buds?

These bouquets were created by Denise Porcaro, who owns **Flower Girl NYC**, a shop in Manhattan with a pretty Instagram account (@flowergirlnyc). She chose them because they're easy to find at florists, supermarkets, and better convenience stores.

Ceramic vase by Akiko Tsuji

Short and simple, this is a subtle option for an open-plan space. Fill it with affordable dahlias in late summer, or biweekly with hydrangeas come fall.
$110; akikotsuji.com

Bauhaus ripple vase by Object & Totem

Playful without being too crazy, the monochrome gray clay is subdued enough for a conservative office. Top with funky pods like brunia to echo its shape; if you forget to refill the water, the buds also look good dried.
$120; objectandtotem.com

REAL WINNERS

A TV documentary tries to portray football agents as the heroes they're not. By Ira Boudway

The work of an NFL agent doesn't cry out to be watched. They are contract lawyers whose contracts aren't very interesting, because the league and players union negotiate the important terms. They shuffle among hotel rooms, stadium tunnels, and steakhouse banquets with cell phones as their most constant companions. And yet they keep finding their way into pop culture. *Jerry Maguire* proved there was an appetite for them in 1996; that same year, HBO debuted *Arli$$*, a comedy about a less cuddly Maguire.

In June, HBO went back to the well with *Ballers*, a series from the creators of *Entourage*. The half-hour dramedy stars Dwayne "The Rock" Johnson as Spencer Strasmore, a former NFL linebacker selling his services as a financial adviser to athletes. Spencer is agent-adjacent. He leaves the paperwork to his former agent while he tells players to "grow up," "wise the f--- up," and lease anything that "drives, flies, floats, or f---s." Because this is Sunday night on HBO (and essentially *Entourage* rebooted), the straight talk is mostly an excuse to show off bad behavior. Bathroom sex with bottle-service girls, yacht parties, painkillers popped before hard looks in the mirror—it's all here.

No such things happen in *The Agent*, a documentary series from the Esquire Network that premiered on Aug. 11. The show acts as a foil to *Ballers*' glitz. The closest thing to hedonism in the first four episodes is a nice dinner out in Cincinnati. The series follows four NFL agents—Jeff Guerriero, Peter Schaffer, Sunny Shah, and Ed Wasielewski—as they recruit clients. "Before you get to play on Sundays," says the voice-over lead-in, "before the fame, the fortune, the endorsements…you need the agent."

It's the same premise that's fueled two decades of reality TV: Just film the boring bits of any seemingly glamorous life. Americans have proved by now they'll watch anything—kitchen work, apartment hunting, sitting on couches—as long as there's someone to hate. But *The Agent* doesn't even offer petty villains. It's just four dudes working.

The opening shot shows Schaffer on his treadmill at home, going nowhere. We also see agents playing golf, making calls, watching TV, and ordering dinner. In between, they offer plenty of bromides. They've had to work extremely hard to get where they are. Players need the best possible team behind them. The job is up one day and down the next. And so on.

Although the network's boilerplate calls them "four top real-life *Jerry Maguire* sports agents," the stars actually range from mid- to bottom-level. True power players—Tom Condon, Drew Rosenhaus, or Ben Dogra—would never open their doors for a smallish cable network. This turns out to be the show's salvation, because these lesser agents are surprisingly open.

The real draw is Wasielewski, the world's least likely NFL agent—entirely lacking in swagger and fast talk. His bro-hugs and patter are always just a little off, yet it's impossible not to root for him as he chases players most big agencies don't want. "I am a 41-year-old man recruiting a 21-year-old man," he explains in one scene. "I'm waiting, literally thinking, like, I hope he texts me back." At one point, when a recruit calls to reject him, Wasielewski's sitting at home in a red hoodie. It looks like a hostage video.

Just when this humiliation begins to seem cruel, there's some relief. Joey Mbu, a less coveted recruit, decides to sign with him. "He's corny," Mbu explains to the camera, "but he accepts his flaws, and that's something I'm pretty good at doing, too." After Wasielewski leaves, Mbu does his own cheesy dance for the cameras. All of football probably won't produce a more innocent TV moment this season. Ⓑ

MASTER CLASS

LEANER TIMES

$2.00 a Day: Living on Almost Nothing in America

By Kathryn J. Edin & H. Luke Shaefer (Houghton Mifflin Harcourt), $28

Finding work is hard—keeping it can be harder. "Service sector employers often… adopt policies that…ensure regular turnover among their low-wage workers." *p45*

Lack of affordable housing is only half the problem. "Between 2000 and 2012 alone, rents rose by 6 percent.… **The real income of the middling renter in the United States fell 13 percent**. What was once a fissure has become a wide chasm." *p74*

Welfare is effectively dead. "What's different these days—and what affects the $2-a-day poor so profoundly—is that **welfare can no longer be counted on to provide a floor of cash** [for families]." *p97*

Welfare should be seamless. "It's not enough to provide material relief.… We need to craft solutions that can **knit these hard-pressed citizens back into the fabric of their communities**." *p158*

ILLUSTRATION BY BRANDON CELI

ALLISON MAYO

29, account supervisor, Bohan Advertising, Nashville

What's your work style?
I'm very feminine. I love tailored and structured clothes, and I like to look clean and polished at all times.

You dress very colorfully.
Pinks, purples, blues—lots of it. I like bright colors, and they look best with my green eyes.

What does an account supervisor do?
I work closely with clients to determine their business objectives, and then work with our creative and media teams to develop solutions.

Do you dress for clients?
When I'm with hospital clients, I choose fitted blazers. Around the office, I stick with dresses in bold patterns.

Your jewelry is very simple.
I wear the same pieces daily. I'd rather someone look at my clothes.

What kind of clients do you work with?
My main focus is hospital accounts. And one art museum to spice it up.

Do you shop all the time?
Oh, yes.

Does that cause budget issues?
My husband and I have a set limit of what I can spend each month. Shoes are the worst problem. I save up for big purchases like handbags.

You're in Nashville. Do you do the country look?
Absolutely not, and I've lived here my whole life. That's not a good look for me—or anyone.

Your maiden name is Bohan. Are you related to the principal?
That's David Bohan, my uncle. We don't interact much on a day-to-day basis, but he's taught me so much.

PHOTOGRAPH BY CHRISTOPHER LEAMAN FOR BLOOMBERG BUSINESSWEEK

Interview by Arianne Cohen

How Did I Get Here?

BROOKE JOHNSON

President, Food Network and Cooking Channel

Education

Louisville Catholic Girls High School, Woodland Hills, Calif., class of 1969

Northwestern University, Evanston, Ill., class of 1973

Medill School of Journalism at Northwestern, class of 1974

"I was a mediocre student. I didn't enjoy studying, and I didn't really resonate with the nuns."

"After I left, they hired Oprah. So my timing was not impeccable on that one."

Work Experience

1976–78
On-air reporter, KGUN-TV Tucson

"I had this rather foolish plan that I would start off as an on-air reporter and then move into programming. I wasn't very good on-air."

Staff with Regis, 1985

1980–83
Associate producer, executive producer for local programming, WLS-TV Chicago

1983–90
Program director, WABC-TV New York

"My No. 1 job was to create a successful morning show. Regis [Philbin] was our first choice. We had to put a misery clause in his contract: If he was absolutely miserable, we would release him. It's the only misery clause I've ever heard of."

1990–2000
Executive vice president, general manager, A&E

"We did *Biography*, which was the hot thing of its era—it put A&E on the map. And I said, 'We've got a lot of history programming. Why don't we do a history network?' The History Channel began in 1995 and blew up."

With President George Bush and Barbara Bush celebrating A&E's *Biography* series in the mid-'90s

"We had a huge success co-producing *Pride and Prejudice* with the BBC. It launched Colin Firth's career."

2000–03
Stay-at-home mom

"The teen years are a really important time for kids. They take more of your mental bandwidth."

2003–04
Senior vice president, general manager, Food Network

2004–10
President, Food Network

"They had this show *Iron Chef*, which was in Japanese with English dubbing. I said, 'Wouldn't this show be better if it were produced in English?'"

With Bobby Flay at Food Network's 20th birthday party, 2013

2010–Present
President, Food Network, Cooking Channel, and Food Category for Scripps Networks

In August, Johnson announced she would soon retire

Life Lessons

1. "Stop thinking about yourself." **2.** "Being direct, honest, candid, and apolitical is the most efficient way to run an organization." **3.** "If you're not so happy in your job right now, don't obsess over it. You never know when your great job will come."

Courtesy subject (4). Getty Images (2)

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